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The Journal of SOCIAL, POLITICAL AND ECONOMIC STUDIES

Roger Pearson
General Editor
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The Limitations in American Capabilities for Missile Defense

Eugene Fox & Stanley Orman
Orman Associates Inc., Rockville, MD

It is hardly surprising that allies continue to rely upon the U.S. to protect them with active defense against threats of Missile attack,[1] Having sheltered under the umbrella of American nuclear deterrence in the era of Mutual Assured Destruction for almost half a century, Britain and France may have independent nuclear offensive capabilities, which during the Cold War would have complicated Soviet strategic planning; but in terms of true deterrence, the West remained under the protection of American nuclear strength while the Soviet Unlon existed as the second Super Power. Half a century of reliance constitutes the establishment of dependency. When it comes to the subject of defense against Ballistic Missiles (BMs) the allies have been conditioned to assume that America will provide.

This belief has been amplified by the repeated U.S. claims, that the Theater Missile Defense (TMD) systems currently being developed in America will, in addition to providing protection for U.S. forces operating out of area, defend the troops of friends and allies and their populations. This claim was first associated with the program, Global Protection Against Limited Strikes, initiated under President Bush.[2] The commitment has remained as a clear policy statement through several changes of program priorities, and is still referred to as an objective of the current TMD program.[3] To be in a position to meet this sweeping commitment the U.S. would have to complete successfully some ongoing development programs, and acquire far more interceptors and launchers than are currently planned.

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[1] E. Fox and S. Orman. "U.S. Allies Need Missile Defense in Own Back Yard", Defense News, pp 15-6, 18-24 August, 1997.

[2] President Bush, inviting Allies to join GPALS in 1992, Reported by E. Fox & S. Orman, *J. Social, Political & Economic Studies*, Vol 21, No. 3 1996.

[3] M.R. O'Neill, "Prepared Statement given to House National Security Committee, April 4 1995", *Defense Issues*, Vol 10, No.37, 1995

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This article reviews current American BMD programs in the light of the above commitments regarding protection of U.S. and allied assets. The evidence suggests that for a further decade the U.S. will not only be unable to provide the promised support to the allies, it will have difficulty in protecting its own coops adequately against BM attacks.

The Capability of Defenses

Research initiated in the U.S. in 1983 under The Strategic Defense Initiative and continued under the Ballistic Missile Defense Organization, has demonstrated that smaller raids of less sophisticated missiles can be intercepted successfully. A hit-to-kill kinetic interceptor has been developed and successfully demonstrated. This missile is being integrated into an updated Patriot system designated as Pac 3, and will be introduced into service in 1999. It will provide an effective point defense, capable of defending small areas, such as a port or an airfield, against relatively unsophisticated BM attacks.

The weapon system designed to provide protection over a wider area, the Theater High Altitude Area Defense System (THAAD) has experienced development problems, and is now unlikely to enter service before 2006, at the earliest. THAAD has been designed as an upper tier interceptor, which when operational would, in conjunction with Pac 3, provide a layered defense capability. Until this, or an equivalent high altitude interceptor being developed by the U.S. Navy enters service, America has no capability of providing area defense. The interceptor for the Naval Theater Wide Area Defense system, which would utilize the radar and launch facilities of the existing Aegis class ships, is still in the early stages of development. Claims that this system could be in service before THAAD[4] have to be treated with a degree of skepticism until the development program advances far enough to demonstrate more than a simulated capability. Either of these two upper tier systems would be critical in meeting the requirements of an effective area defense. Without an integrated layered defense there is no means of providing effective population defense.

It was noted above that THAAD has experienced development

[4] J. Kyl, "An Effective Antimissile Strategy," *The Wall Street Journal*, May 22, 1997.

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problems. These have significantly delayed the scheduled early deployment date, and added considerably to the total cost. Another less well publicized ramification has been a loss in confidence that the design objectives of producing a highly effective defense can in fact be met. Each of these important issues is reviewed below.

THAAD Delays

The THAAD system was originally destined to be deployed by the year 2000. As recently as February 1996, a BMD Program Review initiated by the then Under Secretary of Defense for Acquisition & Technology, recommended availability of an early standard of the THAAD missile in the 1998 timeframe to cope with a crisis situation.[5] At that time the THAAD missile was already experiencing flight test problems and the Defense Secretary decided to place greater emphasis on the lower tier systems, removing some $2 B from the five year forecast spend of the THAAD. It was noted at the time that although the lower tier systems would be funded more robustly, there was no concomitant decrease in their fielding schedule. This was interpreted as an indication that the lower tier systems remain less effective and more vulnerable without the upper tier in place.[6] Further test failures of the THAAD missile have now resulted in a proposed deployment date of 2006, with estimated cost growth of more than $ 1.5 B. There has been no further new specific data given for the early use of a development standard.

The original concept of making some early standard missiles, called the User Operational Evaluation System (UOES), available in case of a crisis, was based on the recognition of the importance of an early availability of an integrated layered defense. This in turn followed directly from the early concepts underlying the Strategic Defense Initiative of 1983, which attempted to harness emerging technology to develop a high efficiency, multi-tiered defense.[7] Thus for the past 14 years there has been full acceptance that an upper tier would be essential for wide area defense, and that a lower tier alone

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[5] B. Graham, "Pentagon to Focus on Defense Against Short Range Missiles," *The Washington Post*, February 17, 1996.

[6] E. Fox & S. Orman,"U.S. Must Set Example With Focussed Missile Defense Plan," *Defense News*, pp. 19 & 20, March 18-24, 1996.

[7] S. Orman, "Faith In G.O.D.S.", Chapter 6, Brassey's (U.K.), 1991

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would not be adequately effective even for protection of localized areas.

Cost Growth

The U.S. defense budget as a whole has been under pressure for several years, and the desire to develop National and Theater Missile Defenses in the same timeframe has added significantly to the problems.[8] Several of the BMD development programs are not yet fully funded for all stages, and there appears to be no possibility of producing sufficient funds to put all the systems currently under development into production. Because of these financial restrictions there will inevitably be attempts to eliminate, or at the very least reduce, the cost of several of these programs. Because of the essentiality of an upper tier as a component of an effective defense, neither the THAAD nor the Naval Theater Wide Area Defense programs should be stopped, but there could well be proposals to reduce the performance of the systems to simplify the development task, thereby reducing the cost and timescale to completion. Such proposals should be treated with extreme caution, until it can be demonstrated that such a reduction in performance would not lead to major deficiencies in the overall defense.

The THAAD UOES had been conceived originally as a means of getting a limited quantity (40 missiles) of this urgently needed upper tier system more rapidly to the Army. As the concept developed it became clear that the formality of dealing with two closely related missiles of different standards, could add signIficantly to the overall cost, greatly reducing the cost effectiveness of the proposal. Following the recommendations of independent reviews of the THAAD program, it has been suggested that the difference between the UOES and the objective design should be minimized.[9] This recommendation appears to be still under consideration, but if implemented would impact how much earlier a UOES version could be fielded ahead of the objective design, if at all. At the present time there appears to be

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[8] B. Gertz, "Missile Defense Program Lacks Funding, *The Washington Times*, May 16, 1997.

[9] DOD News Release, Office of Assistant Secretary of Defense (Public Affairs), 193-97, April 1997. 10. "JTAMDO plans massive technology demo in 2002", *Inside The Navy*, September 1 1997.

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no simple solution to the absence of a developed upper tier missile, nor to the cost crunch which will have to be faced within the next five years. Until such solutions are forthcoming, there remains a major question mark over the capability of the U.S. to deploy an effective Missile Defense.

Credibility

The development problems of THAAD have had much more far reaching effects than merely adding to the timescale and cost of the BMD programs. They have brought into stark relief the question of the capability of intercepting missiles at long range and high altitude, at the fringes of the atmosphere. Theoretically it was predicted that it would be much more difficult to achieve hit-to-kill, HTK accuracy at the lower altitudes, where the thickening atmosphere causes targets to modify their ballistic flight path. Despite these predictions, the Pac 3 missile has demonstrated the capability of HTK at the lower altitudes, while the higher altitude capability is still to be demonstrated. Until such success is achieved, an effective defense remains elusive.

There is of course much more to deploying such a complex defense, than the successful development of a couple of interceptors. The Battle Management System, usually referred to as the BMC3I (battle management, command, control, communications & intelligence), has to integrate all the components into a single family of systems, so that they can operate synergistically. These interoperability functions may be incorporated in the programs currently underway, but too little has been reported on the progress of such activities to give confidence that sufficient accomplishment has been made in this area. In September 1997 it was reported that The Joint Theater Air and Missile Defense Organization (JTAMDO), will sponsor in 2002 a demonstration of defense technologies integrated into a unified system. The Pentagon hopes that the technologies demonstrated in 2002 can be fielded in a coherent linked system by 2010.[10] Without such a system linking the upper and lower tier with an integrated air picture, the U.S forces will not have a fully robust

[10] E. Fox & S. Orman, "Why The U.S. Still Lacks A National Missile Defense", *J. Social, Political & Economic Studies*, Vol 22, No. 2, pp 131 - 141, 1996.

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defense, and a much reduced capability of providing population defense. Many observers in and beyond America will be surprised to learn that such a capability is now not forecast before 2010.

Less attention has been given in this review to the other components of the system, such as the sensors, and the launchers. This is not because they are any less important, but because their development has been more successful, and appears to be proceeding satisfactorily. Nonetheless without an adequate performance from the interceptors and the BMC3I, there can be no effective BMD.

Summary

The question of credibility goes well beyond the development of subsystems for a BMD. Among other aspects it involves the political will to face and solve the problems that lie in such a major enterprise. One particular example of this form of credibility is the undertaking given to allies that U.S. resources will provide protection for allied troops and populations. The analysis above has indicated that the U.S. will not be able to provide fully effective defense, even for its own forces, for another thirteen years. Moreover the number of interceptors and launchers for Pac 3, which has been designed to provide only limited local area defense, appear to have been authorized solely on the expected needs of U.S. requirements. The budget limitations seem certain to prevent any substantial increase in these numbers to provide for protection of others.

When an American President states that a system under development can provide protection for the troops and populations of friends and allies, his statement is received abroad with both gratitude and expectation. There is however no compulsion on Congress, which appropriates the funding, to allocate the extra level of resources that would be needed to convert this statement into a firm military commitment. This particular anomaly stems from the lack of cooperation that sometimes occurs between the Executive and the Legislature. The fourteen year history of BMD is replete with examples of the Executive and Congress operating on different policies. There is nothing particularly unusual in this. These differences are certainly not confined to BMD; they extend throughout the domestic and foreign policy areas of American government. Despite this well recorded fact, allies still appear to be surprised when undertakings made with one branch of the American Government are not

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supported by another.

Previous reviews have examined a series of diverse problems associated with National Missile Defense.[11] The analysis indicated that the problems cannot possibly be resolved by DOD alone. There has to be genuine cooperation between DOD, Congress and the White House to enable BMD to proceed effectively. Unfortunately there is no indication that these entities are yet prepared to work constructively together on this or on other BMD topics. Until they find a way of doing so, BMD will remain an expensive, but relatively ineffective program, lacking real credibility. This is a terribly sad commentary on a program that has consumed some $70 B, and can be seen to be so important in providing that last essential line of defense against a threat that already exists, and continues to grow.

[11] E. Fox and S. Orman, Why the U.S. still lacks a National Missile Defense". JSPES, Volume 22, pp. 131-141, 1997.

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THE ABM TREATY CHARADE:
A Study in Elite Illusion and Delusion

William T. Lee

Former CIA and DIA analyst of Soviet and U.S. missile programs

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New Dimensions of Future Security in the Gulf

Hasan A. Johar
Member, Kuwait National Assembly

1. Introduction

The Gulf region has particular significance in international politics. One reason is oil: The region has more than 60% of the world's oil reserves (British Petroleum, Company, 1994). Another reason is its site as a link between the West and the Near East giving it geographical and strategic significance. The Gulf area is a bridge between the Middle East and three continents: Asia, Africa, and Europe.

Events in the 1980s and early 1990s have magnified the region's role at the international level. Although some of the Gulf countries have experienced internecine wars during this time, the area has also seen overt military intervention by the West to maintain the balance of powers. Even after the dramatic end of the Cold War, the collapse of the Communist system, and the protracted role of Western armed forces in directing international politics, the Gulf area is and will be a major subject of interest on the new world order agenda.

No part of the world is as strategically and economically significant as the Gulf region, and it is sensitive to both internal and external changes. Thus, Gulf security is always a pressing issue. The region is susceptible to constant danger regardless of the new world order or the regional balance of power (Cordesman, 1993). Complicating matters even more is the internal structure of the Gulf countries. Within the last two decades, the countries of the Gulf Cooperation Council (GCC) have begun to witness changes and waves of modernity. These changes – social, political, and economic – reflect interactions with foreign nations and cultures.

The most critical and complicated period the region has experienced has been the years since the Iraqi invasion of Kuwait in August 1990, coupled with the radical changes in the rest of the world. With the advent of the new century, careful attention and planning is required to meet these challenges if the region is to continue to prosper in peace.

Threats and challenges are not new, but the present ones combine

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traditional as well as novel elements. External threats are constant, though not always from the same source. These may be attempts at expansion from strong but poorer neighbors or attempts by others to compete for investment in regional resources, or regional conflict over hegemonic leadership. These threats existed to some degree before the discovery of oil, due to the region's strategic location, but intensified in the period after World War II as a result of the Cold War between the major world powers and the Arab-Israeli conflict. These changes have managed to polarize the Middle East and the Gulf area into two world camps. As a region that lacked political experience and sophistication until recently, the Gulf used to be controlled from abroad or by greater powers. Moreover, the countries of this region did not surface as independent political entities until recent times.

Most Gulf countries have been independent for only about two decades. The exceptions are Kuwait, which gained independence in 1961, and Saudi Arabia, which was united by King Abdul-Aziz Al-Saud in 1926. The poor economic status and standard of living in these states changed radically after the two oil revolutions in the middle and late 1970s when the people found themselves with enormous wealth. This phenomenon transformed their nomadic and restricted existence into prosperity. These changes have had an impact on the social and political infrastructure of these countries in terms of their openness to the world, globalization, and acquisition of new culture that affected especially their intelligentsia. The wealth of the Gulf countries was among the greatest in the world in terms of savings and social, educational, and health care services.

This halcyon condition is changing, however. The dream of security, prosperity, and stability for all faded with the Iranian Islamic Revolution and the Iraq-Iran war. In the mid-1980s, oil prices began falling. Since then, the region has not experienced full political stability because of the storm of changes that began to sweep the region as political and strategic polarization began to overwhelm the Gulf states.

The climax of events came with the Iraqi invasion of Kuwait in the summer of 1990 and the resulting entry in the region of forces of an international coalition, led by the United States, that drove Iraq back into its borders. This war brought fast and flowing changes not only at the Gulf level but at the world level as well. Since then, world

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concern, especially the concern of the Western nations that dominate the world balance of power, have focused directly on the Gulf region with little regard for the region's previous links. In this context, it is not strange to sse the increased Western military presence, especially the U.S. forces, shown in number of troops, amount of military equipment, and enlarged services that include the Navy, land bases, aircraft, nuclear submarines, long-range missiles, and combined maneuvers. As many as 50 joint maneuvers have taken place with U.S. troops and troops of the Gulf countries, not to mention other forms of cooperation with the rest of the coalition countries, such as France and Britain. All this in a time when all foreign military presence is being reduced globally (*Al-Mujtama'a,* No. 1127, 29/11/-1994, p. 25). In the following sections, we examine the impact of these developments on the economic and political realm.

On another front, all Gulf countries found themselves dealing with hot and explosive problems that are the accumulations of issues the countries never addressed. The age of oil superabundance made them think the future would always be as easy as the then-present. It is not strange in this context that most of the GCC states are unable to afford free services for their citizens, to absorb the outputs of the domestic work market, to absorb education costs, or to cover their budget deficits (Fried & Trezise, 1993; Cause, 1994). They are no longer able to move development forward and to provide support for their citizens that has been available in the past. To make matters worse, these problems are surfacing in a time of more openness and awareness in the region. With this set of affairs, governments are faced with the urgent problem of balancing the traditional form of rule and increasing demands with reduced revenues (Hardy, 1994). A further complication is that now the Gulf states cannot face economic problems without the support of foreign organizations. This will force further openness to the West, from which will follow undesired outcomes and contradictions in these countries. The dilemma of the Gulf countries is that suddenly they find themselves confronting many simultaneous and difficult problems. How these problems are resolved will determine the political stability of the region.

This study examines three new challenges in the Gulf region. First, domestic problems that affect state-building in the region are discussed. It is very important to know how and to what extent the political regimes view the rising social and economic difficulties, and

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how they will respond to increasing demands for political reform. The second set of problems facing the Gulf countries deals with intra--regional relations both within the GCC countries and between this bloc and its neighboring countries. This level of analysis is discussed in the context of the new world order and the aftermath of the Iraqi invasion of Kuwait.

The third group of challenges is the impact of other regional as well as international issues in the region. Special attention is paid to the superpowers' interests in the Gulf, the peace process in the Middle East, oil, and political Islam. Implications of all these interactions are discussed in terms of their impact on the stability and security of the Gulf region as it goes toward the twenty-first century.

II. The Domestic Dimension

The Dilemma of Statehood

The notion of statehood can still be considered weak and artificial in most of the GCC societies (Redha, 1992; Al-Naqeeb, 1996). This deficiency is due mainly to the discovery of oil in the region in the mid-1940s. The Gulf entities have developed historically as tribal sheikhdoms in which the social bonds are based on loyalty to and dependence on the ruler. Oil has not changed the prevailing customs and basic Islamic traditions in terms of personal affairs (Crystal, 1990; Cause, 1994). Indeed, the tribal bases of those regimes even enhanced the people's loyalty and allegiance to the ruling families through wealth distribution and the policy of giving. Therefore, the concept of the rentier state developed, in which the citizen leads a prosperous life in return for absolute loyalty without the least threat or danger to the legitimacy of the regime (Beblawi & Luciani, 1987).

These countries developed before there was a world order based on the concept of the nation-state. When they declared their independence, they brought their tribal ways with them. Thus, a huge number of citizens were employed in supervisory government posts as a way for the government to distribute money under the terms of employment. This policy continued in the period of oil superabundance. More than 90% of the public manpower is local citizens whereas the great volume of work is accounted for by only 10% of the local employees. This percentage applies in Qatar, the United Arab Emirates, Kuwait, and Saudi Arabia, whereas the private sector absorbs only 2% of the total work force.

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Since 1975, delegated, or foreign, workers perform all real services for the citizens, including education, household services, building construction, maintenance, and even some administrative tasks. Public salaries, health care, education, and other public services take as much as two-thirds of the annual oil revenues. This policy led not only to waste in achievement of development goals but also deterred planners from even thinking about them. Citizens have become accustomed to their heavy, subsidized consumption and short-range spending without any concern for the future.

The superabundance of money was used by the Gulf countries as development funds. Although most was used by organizations linked with the West – like the International Monetary Fund and the World Bank – a high percentage became loans, grants, and political aids used to gain international support and recognition (Mohammad, 1993, pp. 104-105). The value of those loans and grants totaled several hundred billions of dollars paid out since the first oil revolution in 1973. Kuwait alone paid more than $50 billion in such petrodollar diplomacy. In addition, surplus money is deposited as investments in many countries. These sums range from $200 to $600 billion (*Al-Wattan,* 15-12/1994). With the Iraqi invasion of Kuwait, there have been direct and indirect losses from the simultaneous fall of oil prices and the losses of the war, which reached about $125 billion among the Gulf countries (Dagget & Gary, 1995, pp. 87-89). The price of a barrel of oil reached $18 before the invasion, climbing even higher because of Iraqi threats. After liberation, however, the price fell.

The losses from the war were about $125 billion. As much as $37 billion was allocated to cover the direct costs of the war as well as payment and compensation to friendly countries, like Russia, China, the friendly Arab countries, and other countries affected by the conflict. The cost to Kuwait was $72 billion; to Saudi Arabia, $45 billion, and to the Emirates, $8 billion (Dagget & Gary, 1995), not to mention the costs of reconstruction in Kuwait, which topped $60 billion. To satisfy its own people through writing off debts on houses, cars, and bank loans and paying the salaries of all Kuwaitis for the seven months of occupation, the Kuwaiti government spent several more billion dollars that had to come from the country's reserves for the future. These hardships came simultaneously with the increasing necessity of purchasing weapons. The value of GCC armament

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contracts was $82 billion from 1990 to 1995 (*Al-Qabas,* No. 8494, 13/2/1997, p. 1). By the next century, this sum will reach $120 billion. In 1993, the deficit in the balance of payments reached $40-50 billion because of the high price of exported services, remittances abroad, and war bills.

A new problem, budget deficits, became common with all GCC members in this decade. For instance, the Bahraini deficit in 1995 was 122 million dinars (1.00 = $2.55 U.S.) (Subhi, 1995, p. 334). That amount is higher than the country's 1993 deficit, which reached 72 million dinars. With a population of 576,000, Bahrain is the poorest Gulf country. In Qatar, with a population of 534,000, the 1995 deficit was 28% higher than it had been the previous year, reaching 3.5 billion ryals (3.64 = $1 U.S.) (Subhi, 1995, p. 334). This was in spite of a 10% reduction in expenditures as well as the closing of information offices abroad and a decrease in the budgets of some ministries. In the Sultanate of Oman, the 1995 revenues were 1,847 million rials (0.38 = $1 U.S.) while the expenses were 2,195 million rials. Military expenses increased by 885 million rials in the same year (Subhi, 1995, p. 335). Oman's military expenditure constituted 41% of its budget and this percentage is higher than the 34.7% used by the military in 1992. In the Emirates, the 1994 revenues were 16.2 billion dirhams (3.67 =$1 U.S.) while expenses were 17.7 billion dirhams. This figure represents a deficit of 1.4 billion dirhams (Subhi, 1995, p. 336).

In 1993/1994, Kuwait's deficit was $4.1 billion dollars. In 1994/-1995, it went up to $6.2 billion. At the same time, military expenditures went up to $3,350 million (Subbi, 1995, p. 336). This is apart from wages and salaries.

The 1994 deficit in Saudi Arabia was $10 billion, but it dropped to $5 billion in 1995. Military expenditures increased by 50 billion ryals (3.74 =$1 U.S.). Military expenditures in 1995 represented 33% of the total government expenditure ($13.2 billion). In 1994, it was almost the same (53.5 billion riyals) (Subhi, 1995, p. 331).

Governments began to publish these facts and declare that their citizens should accept the cost. In the first Shura Council in the history of Saudi Arabia, King Fahd declared that the increase in service charges, recently imposed on Saudis, had been religious clerks and university professors. This memo asked for eradication of corruption and bribery, establishment of a strong army, and equal distribution of wealth. Though King Fahd criticized this method of

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asking for reform, he did not deny the content of the two memos. This time, the King found himself pressured to make some reforms. These reforms, though limited, indicated the power of the internal pressures. They were based on two main characteristics: First was issuance of the Islamic rule system of 83 articles. Under these, the Al-Saud family will continue to rule, protecting public properties and the rights of the citizens and restraining the Mutawaa (religious police). Second, a Shura Council of 61 members selected by the King will enact laws and advise the ministers (Hardy, 1994, p. 24).

The situation is probably worse in Bahrain than any of the other Gulf countries. For 20 years, the government has ignored continuous demands for the restoration of democracy, which was put on hold in 1975. This unresolved demand flared into an internal uprising that was crushed badly by the authorities in the early 1990s (Hardy, 1994, p. 32). The country experienced increasing violence, instability, and turmoil between 1994 and 1996 under harsh economic conditions. During this time the level of local unemployment reached 25%, according to the official figures, while the number of imported workers increased.

Social reform in the Gulf constitutes a new aspect of domestic challenge for the GCC nations. In particular, the current status of women is an important warning sign for the future. The level of literacy among women in the Gulf states has become very high. Women have reached high official positions in many specialized segments of the work world. Women represent a good percentage of local working power in most of the GCC states. Thus, they have achieved considerable independence in terms of work status. This has emancipated them from the tight control of men. Despite religious and traditional restrictions on divorce, the annual rate of family breakdowns is increasing noticeably. In Kuwait, Saudi Arabia, and the United Arab Emirates, the divorce rate reached 30% during the last few years (Johar, 1995, p. 20). Most divorces occur within the first five years of marriage. Women have been included in some of the new social reforms. However, they still have no political rights in any GCC country, including democratic Kuwait.

The new generation in the region is facing a very uncertain future. Most children and youth still expect the continuation of the rentier state in which all services are guaranteed by the government. The level of services their parents knew, however, is unlikely to be

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maintained. Crime is increasing in almost all categories, especially in relation to drugs – both using and selling. According to official sources, the entire GCC bloc is targeted with enough drugs to supply the entire population several times over.

Although the problems and changes discussed above represent issues in need of imminent attention, political reform is slow to arrive in the Gulf region.

Unfortunately, most of the Gulf countries are in a period that is full of multidimensional turbulence, yet the ruling regimes continue to display the same close-minded, individualistic mentality with which they have insulated themselves for years. However, attempts at change may come from within the ruling families themselves. All the Gulf states experienced attempted palace coups in the 1950s and 1960s (Crystal, 1990). The advanced ages of the current monarchs, who are all in their mid-70s, coupled with the large generation of younger cousins – close and more distant – could well affect future political stability in the region. There are no constitutions or legal procedures that establish political succession or transmittal of power in most of the Gulf countries (Johar & Gawdat, 1996, pp. 43-44). Some primitive political reforms have taken place or been promised, but all the countries are far from any meaningful concept of real democratization.

There seem to be two opposing political currents in the Gulf. The first consists of a group who support more political openness and modernization; these are mostly traditional merchants, highly educated people, middle-class technocrats, university students, and supporters of Islamic movements. Some members of the royal families are among those reformists, especially in Kuwait, Qatar, and the United Arab Emirates. The other group, which is led mostly by members of the royal families, strongly resist any kind of political change. The latter group seems to have the upper hand in controlling internal affairs, mostly because of the vast wealth they have used successfully to gain the loyalty of the masses (Beblawi & Luciani, 1987).

With the competition between the two currents, their interaction should intensify as new economic, political, and social developments evolve at both internal and external levels. Despite continuous calls for democracy and political participation by so many intellectuals, professional technocrats, and even religious figures, reactions of most

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of the Gulf monarchs have been generally unyielding. The case of Bahrain may offer the clearest example.

In Bahrain, the government refused to restore democracy for more than 20 years, blaming their intransigence on the harsh economic conditions in the country. It is true that the level of unemployment among the Bahrainis was 25%, but the government fueled the situation by importing about 40% of the total population from abroad. This action ultimately led to a public uprising that began in 1994 and lasted for two and a half years. During that time, there were many types of political disorder, including large rallies and demonstrations, attacks on government buildings, and hundreds of arrests and torture of detained citizens, badly damaging Bahrain's human rights record.

In Qatar, the situation is less volatile, but still unsettled. This country is one of the smallest and most conservative in the region. Even so, in December 1991, a memo was presented to the government by 50 prominent citizens, criticizing government policies in all domains. The petitioners asked for an elected council and a permanent constitution to establish and maintain democracy (Hardy, 1994, p. 31). In June 1995, the current Amir Hamad bin Khalifa overthrew his father and instituted some reforms. He also promised to hold municipal elections, but this has not yet happened.

The case of the United Arab Emirates is not very much different. The country has an important history of political activity. The most prominent parts of the country are the emirates of Dubai and Sharija, which experienced simultaneous political reform movements with Bahrain and Kuwait in 1938. Those movements were successful in both Kuwait and Dubai, where the first elected council was put in place. In 1979, the National Federal Council in the United Arab Emirates presented a memo in which it called for complete unity and parliamentary democracy (Hardy, 1994, p. 36). The government answered that demand with an appointed advisory council (Majlis Al-Shura). Political activities, especially by religious groups, have been banned since the 1980s.

Comparatively, Oman has recorded the best progress in recent political reform in the entire Gulf region. In 1991, Sultan Qaboos paved the way for reforming the existing consultative political system. He replaced the appointed members of the advisory council, which was established in 1981, with 59 quasi-elected members. According to

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the new system, the Sultan appoints one of three elected candidates in each constituency to a 59-member Shura Council. The new council is limited to advising the government (Johar & Gawdat, 1996, p. 44).

In Kuwait, the only constitutional state in the GCC, democracy still faces serious obstacles. Political participation is very limited as the total number of eligible voters represents only 12% of the country's citizens. According to the constitution, the ruling family is empowered with more political authority than the rest of the people. The Amir has the right to dissolve the parliament. During the country's 35 years of political independence, the constitution was put on hold for 11 years. The government, which is headed by the crown prince, has great power to influence and in some areas control national elections. Throughout the eight parliamentary elections that have been held in the democracy's history, the government did not hesitate to use any means at its disposal to affect the results of the elections, including bribery and forgery (Johar, 1995, pp. 40-41; Aart, 1994, pp. 21 -22).

III. The Regional Dimension

The GCC Relations: Within and Without

The other dimension that weakens the Gulf countries is the intra-regional problem. Territorial problems defined by Britain before its evacuation in 1971 are the foremost factors of division. They are time bombs, as no two Gulf countries are ever far away from territorial disputes. There are disputes between the GCC members and neighboring countries as well as disputes among the countries of the GCC. Some disputes between GCC members have led to limited confrontation, such as the Saudi storming of a Qatari border station in 1992 and the confrontation between Qatar and Bahrain over the islands of Howar and Fisht-el-deabil. Saudi Arabia is considered the axis of such territorial disputes as it is the only country that shares borders with all other GCC members in addition to Iraq.

All disputes are over oil and natural gas reserves. Each country seeks to dominate these resources because of the economic advantages each one gains by controlling oil and gas. Moreover, the potential risks from the oil disputes are polarization of the GCC countries (Al-Aydaroosi, 1993, p.171). An indication is the Saudi-Qatari dispute, which led to an alliance by Qatar with both Iraq and Iran. The Gulf countries have recently become divided unofficially into two

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camps: Saudi Arabia, Kuwait, and Bahrain versus Qatar, Oman, and the United Arab Emirates. Such disputes work against Gulf unity. Although the GCC was established 15 years ago, borders have not yet been opened, taxes and customs have not been removed between and among all countries, and few joint projects have been conducted. On the contrary, competitive projects have increased.

In addition to the problems close at home, the GCC countries have difficulties with neighboring states. The Gulf war was caused by the invasion of Kuwait by Iraq. There have been difficulties between Iran and the United Arab Emirates, and between Saudi Arabia and Yemen. These disputes make the Gulf countries unable to agree on a joint security system. They also affect the countries internationally. With so little agreement among themselves, the GCC countries will join the new world order in a weak position, with little political or negotiating power, especially with the United States, the world leader. They cannot compete with allies or enemies, especially on such significant issues as security, economic control, and oil.

The United States may find itself opposing not only the regional powers in the Gulf, such as Iran and Iraq, but its NATO allies as well, as oil and energy continue to constitute the backbone of the world economy. The U.S. view of Gulf security will probably be the prevailing one (Al-Aydaroosi, 1993, p.171; Marhoon, 1995, p.36). The deep dependence of the Gulf countries on the United States, as shown in the response to the Iraqi invasion, makes them unable to ensure their own security. Their internal dissensions on one hand and the effect of the U.S. and Western interests on the other weaken the ability of the Gulf countries to expand relations with the world beyond the Middle East. Other regional countries, such as Iran and Iraq, have formed international alliances and have thus become more powerful on economic and military levels. The weaknesses of the GCC countries will prevent such collaborations and contribute to the lack of regional security in the Gulf. As an example, the concept of dual containment of Iraq and Iran proved a failure, but it helped the United States tighten its position in the Gulf. In similar ways, new strategic alliances may appear – European/Russian, for example – to secure Gulf oil (Gerges, 1996/97). The Gulf as a top priority of the United States, the Jordanian/Israeli issue, and privatization are discussed in the following sections.

The Gulf countries face the 21st century with many challenges:

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deteriorating internal conditions, weakness in the ruling systems, inability or unwillingness of authorities to move from a tribal concept into statehood, and intransigence of rulers in the face of demands by citizens for change. Among the currents pushing for change, the Islamic powers are the most organized, powerful, and well financed. The political coupling that has existed between the Islamic powers and the governing authorities is under strain. Saudi Arabia is an example; in the kingdom, the Islamic movement has begun to oppose the official authority of the ruling family. American policy in the Middle East, especially in regard to the peace process and political Islam, is likely to lead to more Islamic opposition in the Gulf region. As ties between the ruling authorities and the West strengthen, opposition by Muslims to such alliances will grow stronger (Ayub, 1993). The opposition to the United States from the Islamic movement is principally because of the support of the West for democratic movements.

Another flashpoint is the Israeli situation. As Gulf-American-Israeli relations strengthen, confrontation will increase with neighboring countries, especially Iran. The United States is very concerned about preventing any Iranian-Arab Gulf alliances. The U.S. policy is mixed, however; it praises democracy and supports it – except in countries such as Saudi Arabia and Bahrain, where it has strong ties to the nondemocratic ruling authority.

These are some of the struggles the Gulf countries are dealing with today. Their weakest point is their inability to establish a united and harmonious front to present to the rest of the world. This lack of unity puts the GCC countries at a special disadvantage in relation to the giant alliances – economic and military – that have begun to appear internationally. These include the European Community, NAFTA, and the Pacific Agreement. These projects are not limited only to the great industrialized countries but are also of interest in the developing world. To date, however, the Gulf countries have not been able to unify in a successful economic integration based on distribution of specialized tasks, interdependence, free markets, or even the elimination of customs and tax obstacles – which are fiercely opposed (Al-Zobri, 1 995).

There is little reason for optimism on this front. In fact, with the continuous and rapid changes at the regional and Arab levels, several signs of threat can be identified in the Gulf region, especially those

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related to GCC countries in both the domestic and foreign arenas. Some of these are discussed below.

The first and most troubling stumbling block is the lack of political development. Changes in government can come about peacefully only with open discussion, tolerance for opposing views, and willingness to entertain diverse solutions for current problems. Political development must have a democratic atmosphere and political diversification to flourish.

History has demonstrated – and recently within the GCC countries themselves – that development cannot occur in a climate of repression where autocratic and limited decisions smother alternative and competitive opinions. Real experience also shows that innovation is not achieved without new blood and ideas in the decision making channels.

In spite of the present situation, democracy is not unknown in the Gulf countries. Both Kuwait and Bahrain have had real democratic experiences in spite of the obstacles they have endured. The United Arab Emirates saw a democratic movement in the first quarter of this century. Other Gulf countries have made attempts to adopt forms of democracy, and most recently the Amir of Qatar promised free municipal elections in that country for the first time. Even Saudi Arabia, the most conservative and traditional of the GCC countries, established the new Shura Council, with its elected/appointed members, as a step toward political reform.

Strengthening the push for reform is the storm of democracy that has swept the world in the aftermath of the Cold War. Through democratic reforms, the GCC countries will be more capable of containing the Islamic political upsurge and wave of extremism that has engulfed poor Islamic countries.

The Islamic rising in the Gulf is a developing and expanding trend. Its leaders repudiate the formal and traditional culture in favor of a new culture based on public religious organizations. These could be like the old mosques or new intellectual clubs, public utility organizations, or arms of the press (Al-Najjar, 1991, p. 81). Already, the various and diversified Islamic groups have created economic and investment organizations whose social and cultural activities go beyond the borders of these countries. Donations and grants in the hundreds of millions of dollars go to poor Islamic countries.

The Islamic intelligentsia has scored success with the traditional

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tradesmen and allies of the ruling families. These classes, as a result of the great oil wealth, have learned to equate culture with luxury. The Islamic leaders have managed to reverse this thinking, replacing it with a reverence for nationalism and Islamic advancement. Now Islamic thought prevails in the middle classes of the Arab Gulf societies (AlNajjar, 1991, p. 74).

The reason for the success of the religious groups as well as the explanation for their ability to dominate and influence is their duality: Publicly, they declare their support for political reform, but in actuality they have their own behind-the-scenes policy that opposes the advancement of women and embraces a political and economic reform that avoids confrontation with political authorities. If the Islamic forces are not contained locally within a true model of democracy, they will be powerful opposing forces in the future, hindering any real political reform.

The domestic instability has an international element. Because of the region's oil reserves and their great importance to the rest of the world, foreign countries will not tolerate great instability in the Gulf. If the social and economic problems are transformed into political problems that require coercive confrontation, instability increases as well as opposition from the Islamic powers. Regional signs indicate that Western powers will support the existing regimes against an Islamic takeover. In spite of calls for democracy, totalitarianism will continue, leading to severe opposition from the people and hatred for the West. The West is already seen as responsible for many internal problems and extremist approaches.

Since its founding 15 years ago, the Gulf Cooperation Council has sought unity. The political independence of the Gulf countries was completed with the evacuation of the British forces. Since the end of the 1970s, the region has seen many unsettling events, including the Iranian Islamic Revolution and the breakout of the Iran-Iraq War, which lasted for eight years. The Iraqi invasion of Kuwait in 1990 has left lingering threats to the states of the region. All these factors were expected to strengthen the unity of the Gulf countries, to encourage them to put aside disputes and find a way to deal as one with the problems of regional security.

Unfortunately, this has not happened. The traditional disputes have remained unresolved, largely because of the types of rulers who emerged. These were mostly sheikhs who brought with them their

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tribal mentalities and no concept of governing a late-20th-century nation. Territorial disputes because of oil have intensified not only among the GCC countries but with neighbors such as Iran, Iraq, and Yemen. Such difficulties have extended to the maritime borders of the north Gulf triangle shared by Iran, Kuwait, and Saudi Arabia, disputes that are still not resolved. The Iranian oil minister has visited Kuwait to resume negotiations; Iran is very eager for the disagreement to be settled between Saudi Arabia and Kuwait to maintain the concessions it had previously won from Kuwait (*Al-Ra'yl Al-Aam,* No. 16837, 1 2/2/1 997).

Problems continue between Kuwait and Iraq, centering on Iraq's lack of a principal port and its claim to the Al-Ritqa oil wells. These were declared reasons for the invasion of Kuwait in 1990.

Another regional problem is the conflict between Iran and the United Arab Emirates over the islands in the South Gulf area. These islands have strategic significance as they overlook the Strait of Hormuz, essential for shipping oil to the industrialized world. Additionally, the islands have value for their natural resources.

Strained relations continue between Saudi Arabia and Yemen, despite ongoing negotiations between them. Recent oil discoveries in Yemen may ease the future relations of the two countries.

Problems within the Gulf countries spill over to affect relations with the rest of the world, creating even more barriers to unified strategies among the GCC. The Saudi-Qatari dispute, for example, was used by Baghdad to its advantage. The Qataris were convinced to use the Qatari information system to publish reports on the disastrous condition of the Iraqi people, with a plea to break the international siege against Iraq. The Doha government has sent huge quantities of relief goods to Baghdad. Similarly, the United Arab Emirates has repeatedly called for reconciliation with Iraq since 1995, accompanied by Sheikh Zayed's criticism of Kuwait to gain the support of Iraq in the U.A.E.'s dispute over the islands. Such situations have a destabilizing effect on unity.

In other examples of disunity, the Amir of Qatar withdrew from the Gulf summit held in Oman in 1995 after accusing other GCC members of intervening in the internal affairs of his country. Bahrain failed to attend the last Gulf summer because it was held in Qatar. The reason was Qatar's continuous propaganda about the Howar Islands. The quarrel between Qatar and Bahrain has escalated to a

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counter-information war, with each side exposing embarrassing political circumstances about the other. Press and audiovisual media in Doha, Qatar, have exaggerated public dissatisfaction in Bahrain. The Qatari media broadcast reports of torture, complaints, exasperation, and the demand for reinstatement of the democracy that was discontinued in 1973 by Bahrain's rulers.The Qatari media present interviews with opposition figures, setting out their political demands. Qatar has also established a satellite channel named Jazirah "Peninsula" for discussion of hot political issues in the Gulf. The statements made by the new Amir of Qatar, who came to power after a bloodless overthrow of his father, that democracy will prevail in the coming few years, has stimulated fear and apprehension in the conservative countries. He made these statements simultaneously with a demand for democracy in Bahrain and greater freedoms in the existing democratic regime in Kuwait. Such activity creates unease in conservative countries like Saudi Arabia.

In other actions, the United Arab Emirates welcomed the dethroned Amir of Qatar with royal treatment. When the new Amir was targeted in a coup d'etat that failed, the current ruler accused Bahrain and other Gulf countries of mounting a conspiracy against his country.

The two smallest Gulf countries – Bahrain and Qatar – have accused each other of harboring political opposition figures, scheming against one another, and practicing espionage. Such internal distrust makes it easy for external powers to polarize the region and create secessionist pressure from the GCC. Within the Council itself, side blocs have been created to support counter-trends demanding alteration of joint defense agreements. Any attack on the common security weakens the combined military structure, which is already unstable – and with a weakened structure come more regional threats.

IV. The International Dimension

Regional Security

Many Arabic experts believe that the best prospect for regional security is for it to be integrated as pan-Arab security, a shield against dependence on international security and regional penetration (Saad Naji Jawad, Mariain Al-Amar, & Mun'im AlAmmar, 1996). An alliance based on pan-Arab principles will provide an opportunity for

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an Arab internal balance (p. 42). The requirements for such security are steep. They would include rejection of political crises between Arab countries, thorough economic integration among the countries bound by the agreement, and a limit on overuse of wealth. The restrictions would be so great that such security arrangements are highly unlikely. The Gulf countries are not on good terms with all Arab states, many of which are jealous of the vast oil wealth of the GCC countries and accuse them of unjust distribution of this wealth among the total Arab community. This dissension was fostered during the Iraqi invasion of Kuwait, after which some Gulf figures began to promote the idea of separating pan-Arab security and Gulf security.

Attention is now being focused on the Iraqi and Iranian threats on the one hand and the rejection of the Arab-Israeli conflict on the other. The Arab-Israeli conflict overburdens the Gulf countries politically and economically, and neither their internal circumstances nor their financial status can allow them to continue these obligations. International powers attempt to link Gulf security with international security. A result of such action is that it would isolate the Gulf from the pan-Arab concept in terms of security. The situation makes the Gulf region susceptible to influence by the United States as the major dominant power in the world (Stevens, 1994; Stanley Foundation, 1995).

The Gulf countries have particular characteristics that require them to take specific arrangements; however, separating them from their regional neighbors (Iraq, Iran, Yemen), other Arab countries, Islamic countries, or even the nonaligned countries may create new and different problems (Jawad & Mun'im, 1996). Three situations can serve as examples of the regional security challenges for the Gulf countries.

The closest neighbors of the GCC countries are different from the traditional regimes in terms of politics, ideology, and demography. These are relatively poor countries with large populations and military or revolutionary regimes that deny public participation (Yemen and Iran). The three neighboring countries have historical and border disputes with the GCC countries that keep tension high. These countries are not on good terms with the United States and may, directly or indirectly, have a confrontation with that power. These tensions tend to encourage the arms race between the GCC countries and their neighbors. After the second Gulf war, GCC

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military purchases went up to $45 billion. By the end of the century the value of arms is expected to reach $90 billion.

The arms race may represent a war of economic attrition against the Gulf countries. This race may be intended to subject the countries to social or political shocks as the people's standard of living is degraded by deficits caused by arms expenditures. With so much emphasis on armed forces, the military may become dangerously powerful, and ambitious commanders may use their military might to gain political power, especially in the absence of public participation and reduced development programs. This happened in many third world countries in the 1950s and 1960s. In such a context, the GCC countries would be expected to seek closer ties to Western countries, particularly the United States, for protection (Mohammad, 1993). As alliances within the GCC and with its neighbors weaken, individual Gulf countries will seek closer economic, social, and security links with the West.

The issue of peace between Arab countries and Israeli is one of the most critical challenges Gulf countries must deal with. The peace prospect looks neither stable nor promising. Sadat paid a visit to Jerusalem 20 years ago, and the repercussions of that visit are still reverberating throughout the region. Conditions have been at best tense and at worst openly hostile since the declaration of the Israeli state in 1948. With Israel's constant buildup of military and technological force, the tensions continue to climb. The idea of Middle East peace promoted by Israel politically and through the media cannot hide Israel's attempt to gain superiority and dominance in this way rather than by war and arms.

And Israel finds the Arab countries in financial straits. Historically, the Arab countries have undergone repeated economic crises. The economics of these countries were generally oriented to using public resources in income distribution and development with the aim of creating an infrastructure capable of succeeding in the work force market. As a result, the Gulf countries find themselves at the threshold of the 21st century loaded by internal debt collectively of about $50 billion. If the condition of the public sector in the rest of the Arab countries is included, the indebtedness is close to $200 billion (Al-Sa'adun, 1996, p. 24).

On the other hand, private sector savings, of which the Gulf countries have the lion's share, are about $600 billion (Al-Sa'adun,

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1996, pp. 24-25). This vast economic reserve explains Israel's eagerness to promote economic naturalization with the private sector in particular. Israel does not take the peace process seriously as the political side of the process is complicated. In addition, it always denies the terms of agreements signed with Arab governments. Israel's real interest is in unofficial economic naturalization with the Arab countries because of the bright future of the private sector, especially if there is an atmosphere of unrestricted world trade and repeated calls for market uniformity, open borders, and abolition of contradictory local laws and regulations. In this arena, the scales are in favor of the Israelis, as that country's economy is more advanced and it has had a greater ability to attract capital to boost its productive sectors. For these reasons, Israel desires to suspend the Gulf boycott and initiate economic naturalization.

It is helped by Western governments and international organizations, such as the World Bank, that are calling for privatization in the Gulf in a time of unparalleled pressure to embrace democracy. Israeli economic superiority will minimize the burden of the U.S. budget as it is overloaded by indebtedness (Ismael, 1995, pp. 20-22).

Such predictions enrage those elements that oppose peace – the national and Islamic ideologists. Supporters of Islamic power in the region see the peace process as just another model for foreign dominance and a new era of imperialism.

Finally, Israeli involvement in the Gulf area, with both Iran and Iraq so nearby, may lead to more tension and possibly a new armed confrontation, particularly with the presence of the United States. After the collapse of the Cold War system and following the Gulf war, the United States has become a principal power in the Gulf region. Its impact on the region is direct. For the first time in the history of Gulf international relations, the United States directs its politics and its strategic, economic, and security interests directly without a local or regional agent. Complicating matters even further is that U.S. policies since the early 1990s are no longer in competition with any other great power in the Gulf, even while opposing major Gulf powers like Iran and Iraq. This situation may lead to direct confrontation between the United States and some of the countries in the region as well as another U.S.-Iraqi confrontation.

Today, U.S. diplomacy is self-explanatory and is expressed directly. In a speech delivered by the U.S. Secretary of Defense in the

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Council of Foreign Relations in New York, William Perry stated that the concept of dual containment means halting any power from replacing the United States as the dominant power in the Gulf (*Al-Ahram,* 1/7/1995). This stance does not concern the other Western countries as the traditional competitor to the United States no longer exists, and Iran and Iraq are only regional powers. The main characteristic of dual containment for both Iran and Iraq is to maintain a powerful defense capability in the Gulf region. On the other side, there is an annual cost of $40 billion to maintain the U.S. military existence, as stated in a new study by the American Institute for General Politics, "Time Bomb: Increasing U.S. Commitments in the Gulf" (*Al-Ra'yl Aam,* No. 16846, 2/3/1997, p. 10).

Many signals indicate that the Gulf region is experiencing American dominance. After lagging behind Japan and Western European countries, the United States has, since the beginning of this decade, become the primary commercial partner with many Gulf countries. American firms have assumed a prominent investment role in the Gulf, especially in Saudi Arabia, the Emirates, and Kuwait, whether in number of investment projects or the volume of these projects (*Al-Ra'yl Al-Aam,* No. 16828, 12/2/1997, p. 15). In oil dependency, U.S. demand for Gulf oil has increased, especially the demand for crude oil. It was 5% to 6% in the 1980s and has risen to as much as 25% in the 1990s (Energy Information Administration, 1994). In return, Gulf dependence on the United States in defense has become quite clear (see Table 1).

There has been an upsurge in U.S. arms to the Gulf. The value of arms purchases increased to $72 billion from 1990 to 1995. The value of Gulf armament will be $90 billion by the end of the century. There is no doubt that the policy of flooding the region with U.S. arms and weapons is in support of the United States' dual containment policy against Iraq and Iran. The strategy shores up the defense capability of the GCC countries through bilateral defense relations achieved by the purchase of arms, training programs, and joint maneuvers. The aim is to make the GCC countries a first line of defense.

Establishing a U.S. military presence and bringing the Gulf countries under the protective wing of the United States will have critical impacts in the long run. According to Quant (1997), U.S. policy from the 1950s to the 1980s was driven by the fear of a Communist threat to U.S. interests. Now political Islam is regarded

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Table 1
Values and Percentages of GCC military Dependence on the United States (1970-95)
($ Millions in constant 1990 prices)

	(1970-79)	(1980-89)	(1990-95)
Bahrain	2	305	895
	7.4%	30.7%	98.6%
Kuwait	798	372	2398
	40.6%	19%	65.8%
Oman	33	178	59
	3.4%	14.5%	15.1%
Qatar	0	0	0
	0°/0	0°/0	0°/0
Saudi Arabia	3233	10536	6084
	72%	53.3%	65.1%
U.A.E.	75	581	296
	5.5%	21.2%	10.9%

Source: Sipri Data Base.

as a threat.

Political Islam is not limited to the neighboring countries of revolutionary Iran, Sudan, and Afghanistan, but also includes others like Pakistan and Malaysia. The Gulf countries have become most influential Islamic centers because of public activities, support, organization, and generous budgets. As mentioned earlier, the local intelligentsia have become Islamic, and some of the Islamic movements have armed and trained militias.

If the patterns continue, sooner or later U.S. policy in the Gulf will have a ·confrontation with Islamic opposition in the region. The Islamists have already shown· exasperation with the U.S. presence by the use of force and violent actions. Since the Iraqi invasion of Kuwait, the legitimacy of Gulf governments has been questioned by certain opposition groups, especially in Saudi Arabia where a large complex housing U.S. troops was destroyed by a car bomb, with considerable loss of American personnel. Attacks against American targets seem to be well planned as the Saudi authorities, with the

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help of U.S. intelligence agents, could not find the source of the two bombings that occurred in Riyadh in 1995 and Khubar in 1996. In a recent interview from his new headquarters in Afghanistan, Usama Bin Laden, the most wanted Saudi Islamic opposition figure, threatened to declare Jihad (holy war) against the United States and its allies if it does not withdraw its forces from the Gulf. Bin Laden said that the Riyadh explosion and the Khubar attack were just warnings and that U.S. troops as well as civilians must leave the region before it is too late (*Al-Siyasa,* No. 10144, 21/2/1997, p. 1).

The formal American policy supporting Israel will create a passive reaction in some Islamists in the Gulf. Although some Arab parties have signed peace accords with Israel, that country is still acting aggressively against Lebanon and repudiating the terms of the accords. Continuing provocations by Israel – building homes for Jews in the Arab section of Jerusalem by the Nitanyahu government, continuous expansion of West Bank settlements, and the use of internationally prohibited weapons against civilians in South Lebanon without an appropriate response from Washington – will put the Gulf

Table 2
Current Population and projections for GCC Countries: 1995, 2010, and 2020

Country	1995	2010	2020
Bahrain	576	759	870
Kuwait	1,817	3,160	3,560
Oman	2,125	3,576	4,782
Qatar	534	660	735
Saudi Arabia	18,730	31,198	43,255
U.A.E.	2,925	4,873	6,080
Total	**26,707**	**44,226**	**59,282**

The figures may not add to the given total due to rounding and exclusion of certain pseudo-national entities.

Source: *The World Almanac and Book of Facts 1996.* Funk & Wagnalls Corporation.

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governments in an awkward situation if the United States demands that they normalize relations with Israel. Such a move would be strongly resisted in most Gulf countries.

An even greater peril is the state of confrontation that exists between the United States and Iran. All economic and political indicators show that the Arab Gulf countries could not withstand a new war, particularly one in which they are not a party but are caught in the middle between two opposing powers. Also, the Gulf countries cannot afford to fund another such war. The GCC states spent about $37 billion to fund the Desert Storm operation in addition to the $72 billion that was lost in the war. Kuwait indirectly lost about $38 billion. No Gulf country with a continuous deficit can support a new war to which they are not a party.

All the countries in the region are caught between Washington and Tehran. The United States is trying to convince the Arab Gulf countries that there is a real Iranian threat by giving them information that there are radical organizations in the region, backed by Iran, and that Iran has deployed missiles all along the Gulf as part of a mass destruction program. Iran, on the other hand, has threatened that it will turn the region into a hell and will not hesitate to attack any country that triggers regional war.

The polarization will probably continue to escalate on a wider and wider scale. Mohamed Jaber Al-Ansari (*Al-Qabas*, No. 8484, 2/2/1997, pp. 1, 20) pointed out that the United States' continuing policy to contain Iran and the Western expansion through NATO will probably lead to an answering Asian alliance including China, Japan, Russia, and India that will reach the Gulf through Iran, the largest and most powerful Gulf country if Tehran has avoided confrontation with the United States at least until the end of 1997. These countries are interested in the Gulf because of its energy resources and its potential as a market of consumers. U.S. sanctions against Iran led to more foreign investment in both Iranian oil and gas, which will continue to be the backbone of energy into the 21st century. Iranian gas reserves are 23 trillion Mc, which makes it second in the world after Russia. Iran plans to export as many as 4.5 billion M3 of natural gas in the year 2000 to its main trading partners: Turkey, Pakistan, India, Malaysia, and West Europe (*Al-Wattan*, no. 7551, 21/2/1997, p. 20).

To further its aims, the United States will stimulate movement toward democracy, greater openness, higher standards of living,

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universal education, and increasing contact with the external world by informational and technological methods. This push to promote democracy may create a reaction against the United States, especially if the Islamists assume or participate in power.

V. Conclusion

Every society faces constant challenges. The Gulf countries are no different. However, they face a wide range of economic, political and security difficulties in an atmosphere of rapid alterations and influence by internal and international forces. The Gulf countries have advantages – abundant wealth and oil reserves – and disadvantages: a desirable geographical location, low population, and security weaknesses.

The Gulf countries are small in the power equations – regional or international. Economic circumstances as well as security and political crises during the last decades have made them weak and vulnerable. These countries now face both traditional and new challenges and to survive, they must confront certain realities.

First, the tribal age based on isolation has come to an end. The institutions of society are bases for stability, development, and modernization. In this context, a new model for decision making must be established; it must be characterized by citizen involvement and participation and intellectual maturity.

Second, the GCC countries must realize that they cannot successfully face internal, regional, and international challenges without vital regional projects. They must plan for job opportunities and vital productive sectors. The beginning point should be the sectors directly related to oil industries. Looking forward, the countries must begin planning for how they will feed their populations in the future. If we look at the production rates and prices of Gulf oil and compare these with the expected increase in population, the figures show that it will not be possible to satisfy the increasing needs of a growing population (*Al-Sa'adun*, 1992, pp. 22-23) (see Table 2).

These figures do not address the necessity for funding developmental projects that have become an urgent necessity in a world of industrialized competition. It is difficult to see how the Gulf countries will address the needs of an estimated population of 43,660 in ten years while oil dependency and prices will remain close to current

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levels. Only through Gulf unity can the region address economic competition at regional and international levels as well as military and political security.

Third, political reform must be instituted to stop outrageous expenditures, abuse of authority, administrative corruption, and narrow display of self-interest and tribalism. In this respect, the Islamic element should be included as a model of purity and tolerance to show that political Islam can translate development and economic dimensions into reality. Thus countries such as the United States should realize that political Islam is not a danger to their interests and issues of democracy and human rights will continue to be in the Gulf foreign policy agenda.

Finally, the Gulf countries must bring into reality a regional security project. Oil is the main element capable of linking the GCC countries with their neighbors – Iran, Iraq, and even Yemen where oil was recently found. In this climate, respect for human rights and pluralities will be safeguards against fears of exporting political and radical ideologies throughout the Gulf and the Arabian peninsula.

In sum, most Gulf countries face a real danger, yet they have the assets not only to overcome the challenges but also to establish a brighter and more stable future. They possess wealth, energy, and sufficient assets of power. What remains is to learn how to employ them positively with adequate courage and steadfast will.

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Explaining the Origins of Islamic Resurgence: Islamic Revivalism in Egypt and Indonesia

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Islamic societies are experiencing the resurgence of religious activism and discourse in their social, political, and economic life. While the Islamic heritage has always served as a form of cultural identification in predominantly Muslim communities, Islam as a political force has markedly increased since the 1970s. Following long periods of nationalist/socialist projects, many in the Muslim world began to demand a "return to Islam." The manifestations of Islamic resurgence, however, vary from country to country. In some countries, the Islamic revival is an expression of political discontent and opposition. In others, it is an expression of political legitimation by the state elite. Yet in others, both manifestations of Islam are observed. What factors help explain the resurgence of Islam in its multiple manifestations?

Many scholars of Islamic revivalism attempt to explain the multiple expressions of political Islam by adhering to what may be termed the "crises theses." They hold that the reassertion of Islam is related to social and political crises: lack of social justice, lack of political legitimacy, or/and decline of long held traditional value systems. How these variables interact with extant Islamic identities, it is argued, helps explain the various manifestations of Islamic resurgence in different countries.

Yet despite the ubiquitous use of the crises theses by scholars of political Islam, I am unaware of any study that seeks to explicitly test their persuasiveness via structured cross-country comparisons. Although many studies compare Islamic movements (e.g. Piscatori 1983; Esposito 1987; Stowasser 1987; Marty et al. 1991, 1993; Ruedy 1996), these comparative studies rarely seek to isolate the posited causal variables from possible alternative explanations or apply the same indicators of the posited causal variables across cases. Thus the analysis remains unstructured, casting doubt on the overall validity of the crises theses. Therefore, in this paper, I aim to test the validity of the crises theses by way of a structured, focused comparison of

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Islamic revivalism in Egypt and Indonesia since the 1970s.

II. The "Crises Theses" as an Explanatory Framework

Proponents of the crises theses treat the resurgence of political Islam as a product of sociological and political factors interacting with deeply rooted Islamic ethos. These factors include, inter alia, "identity conflict, legitimacy crises, political conflict, class conflict, culture crises, and military impotence" (Dekmejian 1988, 7; 1995). More specifically, proponents of the crises theses argue that the inability of ruling regimes in predominantly Muslim countries to meet demands for social justice, political participation, and economic welfare leads many to turn to Islam as a form of political opposition and, on the part of the state elite, as a form of political legitimation (Davis 1984; Ibrahim 1987; Ayubi 1991). Others emphasize the crises of identity which results from rapid modernization, Westernization, and urbanization or from excessive reliance on Western models of development (Hourani 1983; Esposito 1988).

Dessouki, in an introduction to a comparative study of Islamic resurgence in the Arab world, synthesizes the key arguments of the crises theses and presents them in the form of five propositions:

> Proposition 1: Ruling elites in Muslim countries may encourage Islamic groups as a legitimacy device, a diversionary tactic to divert public attention from other issues and to discredit their opponents, especially those of the Left. Generally, the more a political elite in a Muslim country lacks legitimacy, or is on the defensive, the more it will resort to Islamic symbolism and religious legitimation.
>
> Proposition 2: At the level of the masses, Islam provides a frame of reference for their collective identity, a symbol of self-assertion, and a consciousness that is rooted in their own history and tradition as opposed to foreign penetration and cultural domination.
>
> Proposition 3: It follows that Islamic resurgence is in part a reaction, not to modernization per se, but to a particular type of modernization, that is, Westernization, which overlooks and sometimes despises national traditions and cultural symbols. It brings to the fore the importance of the cultural component of

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> modernization and the necessity of mobilizing indigenous nonmaterial resources.
>
> Proposition 4: In a situation of economic stress and sociopolitical alienation, the recently urbanized sector of the lower middle class is most attracted to the call of Islamic groups. These groups present a defense mechanism to protect this sector's social status from further deterioration and to maintain the integrity of its value system.
>
> Proposition 5: The expansion of the recently urbanized provides the human raw material to Islamic groups...The consequences of [urbanization] are numerous and include the weakening of traditional sources of solidarity, identity problems, and a feeling of alienation.

Underlying these propositions is Dessouki's distinction between Islam "from above," or Islam as a tool of political legitimation, and Islam "from below," or Islam as a tool of political opposition (Dessouki 1982, 22-3).

In what follows, I attempt to operationalize these propositions by transforming them into testable hypotheses with corresponding indicators of the dependent and independent variables. This, in turn, will enable me to test the validity of the crises theses by way of a controlled comparison of Islamic resurgence in both Egypt and Indonesia since the 1970s.

From General Propositions to Testable Hypotheses

Proposition 1 will read as testable hypothesis 1: Generally, the more a political elite in a Muslim country lacks legitimacy, or are on the defensive, the more they will resort to Islamic symbolism and religious legitimation.

Dependent variable

Resort to Islamic symbolism and religious legitimation by the political elite of a Muslim country

Indicators

- Greater use of Islamic symbols by the state elite in public speeches and ceremonies

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- Increase in support for Islamic groups, parties, or/and causes by the state elite
- Adoption, in some measure, of Islamic law (*Shari'ah*) in public policy

Independent variable

A political elite that lacks legitimacy or is on the defensive

Indicators

- A political elite that has just taken power
- A political elite that is increasingly viewed as corrupt by the general population
- A political elite embarking on a major policy shift
- A political elite that is increasingly criticized by the opposition

Propositions 2 and 3 are combined to read as hypothesis 2: Generally, the more a traditional Islamic society is Westernized, the more it will witness an increase in mass Islamic consciousness.

Dependent variable

An increase in mass Islamic consciousness.

Indicators

- A noticeable return to traditional Islamic dress
- A noticeable increase in mosque attendance and religious observance
- A noticeable increase in support for Islamic organizations, groups, and parties
- A noticeable increase in the number of Islamic groups and organizations

Independent variable

Growing Westernization of a traditional Islamic society.

Indicators

- Abandonment of traditional dress
- Greater penetration of Western print and broadcast Media
- Greater secularization of education
- A greater subordination of religious laws to secular laws
- Increase in consumption of Western goods

Propositions 4 and 5 are combined to read as hypotheses 3 and 4:

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Hypothesis 3: Generally, in a situation of persistent economic crisis, many of the recently urbanized lower-middle class will join Islamic groups or organizations which oppose the status quo.

Dependent variable

Growing ranks of Islamic groups and organizations made up of the recently urbanized lower-middle class

Indicators

- Proliferation of Islamic groups in predominantly lower-middle class regions or neighborhoods
- Increase in the size of Islamic groups and organization following periods of mass urbanization
- A greater portion of those arrested for illegal Islamic activities come from the lower-middle class

Independent variable

A persistent economic crises

Indicators

- Persistent high rates of unemployment or underemployment
- A noticeable increase in poverty and income inequalities
- Economic dislocation due to structural adjustment
- A lack of basic social services and/or low-income housing

Hypothesis 4: Generally, in a period of sociopolitical alienation, the recently urbanized sectors of the lower-middle class will join Islamic groups or organizations which oppose the status quo.

Dependent variable

Growing ranks of Islamic groups and organizations made up of the recently urbanized lower-middle class

Indicators

Same indicators as in the dependent variable of hypothesis 3

Independent variable

Sociopolitical alienation

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Indicators

- Lack of political participation due to a closed or tightly controlled political system
- A general perception among the masses of foreign economic and/or political domination
- A general perception among the masses of elite corruption and social injustice.

In the following sections, the hypotheses and their corresponding indicators will serve as the focal point of analysis in each case study. In effect, each hypothesis will become a question to ask of each country under investigation, with the indicators serving as research parameters. However, before proceeding any further, a few words must be said about why I chose to compare Egypt and Indonesia.

Egypt and Indonesia share similarities and have important differences. Both are predominantly Muslim societies – Egypt's Muslims constitute approximately 94% of the population and Indonesia's Muslims constitute approximately 87% of the population; both have experienced Islamic resurgence in society at large and in their political process since the 1970s; both have experienced multiple political and economic crises since their independence which resulted in turmoil and regime changes; both continue to modernize their economies and have a largely secular educational system; both have to contend with the problems of overpopulation and urbanization; and, finally, both countries have a political system that allows for multiple parties but is heavily circumscribed and dominated by a single party.

The differences, of course, are great as well. In Egypt, Islam is homogeneous (mostly *Sunni*). In contrast, Indonesia's Muslims are divided between *santri* (devout or orthodox) and *abangan* (nominal or "statistical"). This division has a long history and its manifestations can be seen in political party divisions. While Egypt's ethnic divisions are hardly noticeable, Indonesia's ethnic divisions cannot be ignored – more than three hundred ethnic groups and languages span the archipelago. In addition, Indonesia, in contrast to Egypt, has been relatively successful in its economic development and is considered by many as one of the newly industrialized countries. Finally, while both countries have witnessed acts of violence by militant Islamic groups, Islamic radicalism runs deeper in Egypt than in Indonesia.

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These differences and commonalities enable me to test the propositions of the crises theses by seeking out the dependent and independent variables in each country under investigation. If the dependent variable of a proposition is present in both case studies but not its corresponding independent variable, then the proposition is unsupported and must be modified or rejected, unless the other posited independent variables are present. Conversely, if the independent variable of a proposition is present in both case studies but not its corresponding dependent variable, then the proposition is unsupported and must be modified or rejected, unless intervening variables can explain away the absence of the dependent variable.

II. Egypt

Like many predominantly Muslim countries in the Middle East, Egypt has experienced an Islamic resurgence. Although Islam has always played a role in the life and politics of modern Egypt, beginning with the 1970s, the country has witnessed a marked increase in Islamic consciousness as well as political Islam. At the societal level, Islamic resurgence has been evidenced by a rise in religiosity: growing mosque attendance, greater adherence to fasting during the month of Ramadan, a noticeable increase in women donning the Islamic head garb (*hijab*), and the proliferation of Islamic literature (Haddad 1987, 240). In addition, hundreds of rooms in private homes have been converted into small areas for prayer, Qur'anic reading sessions, and religious discussions (Sonbol 1988, 33). Finally, networks of Islamic hospitals, schools, and welfare centers as well as Islamic banks and businesses emerged as "models" of proper Islamic social relations (Ayubi 1991, 72 &178).

At universities, Islamic groups began to increasingly challenge the dominance of the Left. Beginning with the early 1970s "many intellectuals who had shown no earlier inclinations toward piety now turned their attention to the words and deeds of the Prophet" (Gaffney 1987, 37). Competition over student organizations between Nasserites and Islamists increased. Furthermore, the writings of medieval and contemporary Islamic reformers became increasingly popular among students.

In the realm of politics, Islam became a source of both opposition and legitimation. In addition to the established *al-Ikhwan al-Muslimun* (the Muslim Brotherhood), which came into existence in 1928, the

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1970s witnessed the rise of more radical Islamic opposition groups (Rubin 1990; Ramadan 1993). Intent on dethroning the ruling regime and establishing an Islamic state, these groups have shown the capacity to use violence against government officials as well as civilians. As for the government of Egypt, its policies toward Islam and Islamic groups vacillate between accommodation and repression. At times the government seeks to placate Islamic groups or gain their favor; when Islamic groups become too threatening, the ruling regime does not hesitate to suppress them or limit their activities.

Islam "from above"

The 1970s began with the passing away of President Nasser and the coming into power of Anwar al-Sadat. After two decades of socialist experimentation with the economy, Sadat sought to reverse course by liberalizing Egypt's economic policies (*infitah* [opening]). However, in order to achieve this policy shift, Sadat had to weaken the Nasserist opposition in the country. He sought to accomplish this goal by re-energizing the *Ikhwan*. According to Springborg, "Sadat has found that the Muslim Brotherhood is one of his most useful instruments for implementing a strategy of *divide et impera*" (Springborg 1981, 37). Sadat permitted exiled leaders of the *Ikhwan* to return to Egypt and to public life. In addition, he allowed them to publicize their cause and recruit new members as well as indirectly support candidates for parliament. In 1975, Sadat authorized the publication of two of *Ikhwan's* journals, *Al-Da'wa* and *Al-I'tisam*. Finally, in an effort to provide an alternative to Marxist and Nasserite groups at universities, "the Muslim student associations on campuses were provided with financial, administrative, and organizational aid" (Sonbol 1988, 28).

Sadat's reliance on Islam was not limited to support for the *Ikhwan*; he sought broader legitimacy by adopting an image of "the pious President" (*al-ra'is al-mu'min*). In the mid-1970s, he sought to cultivate this image by "well-publicized Friday expeditions to mosques where he and his entourage [were] often photographed in the kneeling position" (Springbore 1981, 35-6). Furthermore, his speeches increasingly portrayed Islamic imagery and he often abandoned his business suits and military uniform for religious garments. Allocations for mosque building and refurbishing increased under his regime. Finally, in 1971, the *Shari'ah* (Islamic law) was made one of

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principal sources of all legislation and in 1978, in an effort to further mollify the Islamists, Sadat proposed an amendment to the 1971 article 2 of the constitution stipulating the *Shari'ah* as "the primary source of legislation," not just one of the sources (Najjar 1992, 64).

Sadat's attempt to construct an image of a pious Muslim coincided with three important developments. First, Egypt faced a massive rural-to-urban migration which resulted in serious economic hardships. Due to stagnation in the production of agricultural commodities, rural-to-urban migration increased tremendously in the 1970s. According to Ibrahim (1987, 129-30), due to mass migration from the country side, Cairo's population grew "from four million in 1960 to more than eight million in 1979." He adds, "[t]he influx of cheap labor from the countryside depressed employment and lowered living standards among the unskilled masses." Furthermore, excessive migration resulted in acute housing shortages and overcrowded living in miserable conditions:

> By 1975 the housing shortage in Egyptian cities was estimated at over 1.4 million units..., with over three persons *per room* the Cairo norm. Much of the existing housing stock was decidedly substandard: 23% of urban households had no electricity, over one-sixth had no access to potable water, and nearly two-thirds lacked sewage hookups...More than half a million Cairenes live on rooftops, and unknown thousands live in the tombs of the Mamluks (Richards et al. 1990, 275).

Sadat's regime could hardly react to Egypt's economic woes given the magnitude of the problem and the limited resources.

The second development corresponding with Sadat's attempt to portray a religious image was the growing concern among Egyptians over corruption. The policy of *infitah* resulted in general discontent as many believed economic reforms benefited only a well-placed minority of the population. As Ibrahim (1987, 129) explains,

> [a] further direct outcome of the *infitah* was a new pattern of income distribution, with the income share of the poor falling as that of the rich rose. This was compounded by the return of some leading figures from old families of pre-1952 Egypt and by the spread of corruption among some members of Sadat's inner circle, his relatives, and the *munfatihun* (the beneficiaries and/or supporters of the *infitah*).

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The concern with corruption and social injustice was well publicized by Islamic groups seeking to discredit the regime.

Third, Sadat's appeal to Islam coincided with his attempts to build better relations with the United States and make peace with Israel in the late 1970s. This shift in policy undermined the legitimacy of his regime as he was branded a "traitor" by the opposition and may have contributed to his assassination in 1981.

Husni Mubarak replaced Sadat as President and in the process inherited Egypt's economic and political ills. The country's debt grew from $3 billion in 1973 to $18 billion in 1981 and eventually reached $50 billion by 1988 (Ruben 1990, 26). Unemployment, which was measured at about 5% in 1980, doubled by the end of the decade and reached 17% by 1993 (Richards et al. 1990, 268; and Cassandra 1995, 12). On the political front, after a brief period of relative social peace, violent attacks against government officials as well as civilians increased and reached their peak between 1990-93.[1] Similar to his predecessor, Mubarak faces charges of corruption, mismanagement of the economy, and of being out of touch with the values of society (Cassandra 1995, 19 &10).

Mubarak's strategy of building a broad base of legitimacy relies mainly on what Ibrahim has termed "establishment Islam." While attempting to accommodate the more moderate voice of Islamic opposition, Mubarak seeks to reach the general public by supporting the established religious institutions such as the *al-Azhar* University and the Ministry of Religious Endowments (*Awkaf*). Between 1970 and 1985, "activities of establishment Islam have grown as rapidly as those of 'activist Islam'" (Ibrahim 637-38). *Al-Azhar* publications have increased four fold over this time period; so has the number of radio and television hours dedicated to religious programmes. Finally, over the same time period, state-supported mosques have more than doubled their number of religious educational institutions and their

[1] As recently as December 1992 the government sent 12,000 troops, backed by armored vehicles, to take control of Western Munira where an active Islamic organization controled the shantytown. After three weeks of battle, the government succeeded in wrestling away power from the Islamists (Cassandra 1995, 21). Finally, Mubarak's regime exhibits little willingness to abandon the secular basis of the state. In 1985, after a period of heated public debate over the status of the *Shari'ah*, and after deliberate procrastination and equivocation on the part of the ruling regime, the parliament defeated the effort to make the *Shari'ah* the law of the land.

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student intake has more than tripled. Although establishment Islam tends to reinforce the revivalist movement, it is critical of militant Islamists, labeling them as "deviants" and "lunatics" (Ibid., 638).

In sum, although Mubarak's tactics vis-à-vis Islam vary from Sadat's, both have relied on Islam as a tool of political legitimation. Sadat actively sought to promote an Islamic image and extended support for Islamic groups in an effort to weaken the Leftist opposition and respond to an Islamic revival in the country. Mubarak's policies, on the other hand, rely more on established sources of Islamic authority and are largely a reaction to an ongoing Islamic resurgence. Both regimes faced (and Mubarak continues to face) considerable political opposition (especially from Islamic forces) and economic crisis.

Islam "from below"

Islam as an opposition force in modern Egypt goes back to the turn of the century and radical Islamists never ceased expressing their malcontent with the existing order.[2] However, what is unique about the role of Islam as an expression of dissatisfaction since the 1970s is its ubiquity. The Egyptian masses, like many in the Arab world during the 1950s and 1960s, were captured by the sprit of pan-Arabism and Nasserism. However, in the beginning of the 1970s, Egyptians increasingly "returned" to Islam. As indicated earlier, this revival could be seen at the societal level as well as in political discourse. In addition, the 1970s witnessed the rise of extremist Islamic groups with idiosyncratic interpretations of Islamic texts who were willing to exercise violence against the state and civilians. However, what is unique about the role of Islam as an expression of dissatisfaction since the 1970s is its ubiquity. The Egyptian masses, like many in the Arab world during the 1950s and 1960s, were captured by the sprit of pan-Arabism and Nasserism. However, in the beginning of the 1970s, Egyptians increasingly "returned" to Islam. As indicated earlier, this revival could be seen at the societal level as well as in political discourse. In addition, the 1970s witnessed the rise of extremist Islamic groups with idiosyncratic interpretations of Islamic texts who were

[2] For an excellent exposition on Islamic activism prior to the period under consideration, see the seminal work of Mitchell (1969).

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willing to exercise violence against the state and civilians.[3]

The resurgence of Islam "from below" followed and coincided with a series of developments. As indicated previously, the 1970s witnessed a massive increase in rural-to-urban migration which resulted in housing shortages and pressure on wages. The inability of the government and the private sector to effectively respond to this crisis may have contributed to the growth of Islamic opposition.

One of the earliest studies of the social background of Islamic militants indicates that there appears to be a relationship between recent migration to cities and the rise of Islamic militancy in Egypt during the 1970s. Under study were 34 members of two Islamic groups – *al-Takfir w'al-Hijra* (Repentence and Holy Flight [RHF]) and *Jam'at al-Fanniyya al-'askariyya* (Technical Military Academy group[MA]) – who were arrested in the mid- and late 1970s. The age of the militants ranged from 17 to 26 at the time of joining their respective group. Of the 34 arrested, 21 or two-thirds were born in villages or small towns and were recent arrivals in big cities. Among the remaining one-third born in urban centers, the investigation indicates that some had lived in smaller communities during their early and middle teens (Ibrahim 1980, 438-9). For an excellent exposition on Islamic activism prior to the period under consideration, see the seminal work of Mitchell (1969).

The study goes on to show that 29 of the 34 were university graduates or enrolled university students at the time of their arrest. In addition, most of the university students (18 members or 53%) were majoring in fields which required very high grades in Egypt's statewide examination. Thus, "student members of the two militant groups were decidedly high in both motivation and achievement" (Ibid., 439-40).

Another study, conducted in 1984, of the Islamic group *al-Jihad* (The Holy Struggle) tells a similar story. Of the 280 brought on charges after Sadat's assassination in 1981, 43.9% were students, 14.6% were workers, 12.5% were professionals, and 10.7% were unemployed. The remaining percentages included shopkeepers, government officials, police and military personal, and farmers. As

[3] For detailed studies on the rise of militancy in political Islam in Egypt, see the works of Kepel (1984) and Sivan (1985).

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for their ages, 70% of *al-Jihad* members accused were between 21 to 30 years of age. The highest proportion of *al-Jihad* members and their affiliates come from the Bolaq al-Dakrur section in the province of Giza where most of the inhabitants "live in substandard housing units which are steadily deteriorating as a result of the pressure of the constant influx of rural immigrants" (Ansari 1984, 132-33). The study concludes that "Islamic militants are the product of circumstances closely associated with rapid urbanization and rural migration into the cities" (Ibid., 140-41)

The causal connection between the social background of Islamic militants and the resurgence of political Islam is a plausible one. Recent immigrants to the city, torn from the safe confines of rural traditions and collectivity, faced with economic hardships and limited societal support, are likely to be drawn into groups that provide them with networks of identity rooted in their traditions. As for the students, seeking upward mobility in a society with increasingly limited job opportunities and inadequate rewards for their high achievements may drive them to radical action.

Massive urbanization coincided with another development, mainly dissatisfaction with the existing regime. The Israeli defeat of Arab forces in the 1967 Six Day War was a sign for many that their existing order is corrupt. The humiliating nature of the defeat (in just six days Israel brought down three Arab armies and expanded its land area to three times what it had been six days earlier) signified the failure of Arab nationalism as a unifying and liberating force. Many became disenchanted (Esposito 1988).

Just as important, the inability of Nasserist socialism and Sadat's *infitah* to fulfill their promises of economic development and political freedom was another indication of the shamness of the socialist/nationalist project. Despite the parliamentary facade, Nasser limited effective political participation and tolerated little dissent. Under Sadat, economic openness ensued but not political openness. "The only places open to young men are the mosques," writes Sonbol, "particularly the privately run mosques, which do not restrict what is said or done and allow free discussions" (Sonbol 1988, 28). The number of these privately run (*Ahli*) mosques, estimated at 20,000 in 1970, more than doubled by 1981. Some became famous because they established a reputation of being independent of authority. As Mubarak increasingly sought to put all private mosques under

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government control, "hundreds of rooms in private homes all over Egypt [were] converted into small areas for prayer in preference to government mosques" (Ibid., 33).

Furthermore, the process of *infitah,* initiated by Sadat and which continues under Mubarak, increasingly put the traditionally minded people of Egypt in touch with Western style consumption. Foreign and local investment generated by economic openness was mainly (at least initially) in non-commodity sectors (i.e. financial and service projects). As mentioned earlier, this type of investment was perceived as benefiting a well-positioned minority who did not hesitate to flaunt their wealth by purchasing expensive cars and constructing private estates adjacent to shantytowns. In addition, while there was "an abundance in the relatively luxurious commodities like video and colored television sets as well as technically advanced electrical equipments and sets, the necessary goods and services [were] in short supply" (El-Haddad 1986, 14 & 16). The proliferation of television and radio facilitated the penetration of Western media as American television shows such as *Dallas* became increasingly popular. Finally, *infitah* ushered in a great deal of investment in luxurious hotels and night clubs in Cairo and along the Pyramids. Such activities contravened traditional values, as Ayubi (1991, 75) explains,

> [f]or the religiously-inclined, the notorious Pyramids Road came to symbolize, morally and socially, all the obscenities of infitah, as the 'oil shaikhs' and the 'nouveaux riches' scattered their money endlessly around the depraved fleshpots of this infamous highway on alcohol and immorality!

The Cairo clubs and their visitors continue to be primary targets for rhetorical and physical attacks by Islamic militants (Esposito 1992, 95).

In sum, since the 1970s, Egypt witnessed an Islamic resurgence "from below" as indicated by growing religiosity among the public and the rise of militant Islamic activities. This resurgence coincided with an upsurge in urbanization, economic crises, discontent with the political process as well as with the ruling regime.

III. Indonesia

The resurgence of Islamic activism in Indonesia began in the

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1970s, gained momentum in the 1980s, and continues to the present time. Although Islam, since its introduction in the Indies archipelago, never ceased to play a role in the life of the region, the 1970s witnessed a notable increase in Islamic religiosity among the public and the rise of Islamic groups at the grass-roots level (Nash 1991, 726). The Islamic revival is indicated by increasing participation in both daily and Friday prayers, a growing number of people making the pilgrimage to Mecca, and a noticeable rise in the number of women wearing Islamic dress (*jilbab*). In addition, Islamic groups blossomed on university campuses and numerous formal and informal religious discussion groups sprang up at mosques and private homes (Johns 1987, 224-5; Liong 1988, 888-94).

The "return to Islam" can also be seen at the level of state leadership. Although the government continues to place many restrictions on political Islam, during the 1980s and 1990s the Suharto regime increasingly began to accommodate Islamic demands and exhibited greater use of Islamic symbolism. Furthermore, the government actively promoted Islamic organizations and top officials considered "unfriendly" to Islam were replaced (Schwarz 1994, 175).

Islam "from above"

The 1970s mark the consolidation of Suharto's "New Order" regime characterized by strong authoritarianism and military rule. Suharto came to power in 1965 (officially in 1967) after crushing the Indonesian Communist Party (PKI) for its attempted "coup" against the Sukarno regime. The "Old Order," as it came to be known under Sukarno, was characterized by political turmoil and economic crisis. Suharto, backed by the military and initially supported by established Islamic parties, was determined to restore order and implement drastic economic changes to facilitate national development.

The process of establishing order involved severe restrictions on political organizations and opposition. For those parties that survived the initial wave of attack and were allowed to operate legally, a 1973 order forced them to amalgamate. Four Islamic parties were made into one (United Development Party [PPP]) and were not allowed to hold an Islamic title. The Indonesian Nationalist Party (PNI) was forced to merge with the Indonesian Democratic Party (PDI). The government also supported the quasi-party *Golkar* (Functional Groups) and made it its arm of electoral control, funding it heavily

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and providing it with administrative support (Ricklefs 1993, 298-9).

The effort to control the electoral process was mainly directed at Islamic parties which constituted the only source of effective opposition after the demise of the PKI. By forcing many established Islamic parties into one, the state sought to emasculate them and reduce them to organizational bickering. However, when this strategy failed to halt support for the Islamic party (in the 1977 elections the PPP managed to improve its position by winning 29.3 percent of the vote compared to its previous performance in 1971 when it only won 27.1 percent), the government sought to further undercut the Islamic opposition by imposing a law in the early 1980s that required all such Muslim associations "to renounce any intent of working for the establishment of a Muslim state and to accept the government's own charter principles, *Pancasila* ('The Five Principles'), as a condition for legal association" (Hefner 1991, 208-9).

Suharto's policies toward political Islam in the late 1960s, 1970s, and early 1980s had been especially disappointing to Muslims given their role in helping Suharto ascend to power. Many were expecting Suharto to be more accommodating as a reward for their efforts in fighting the communist party.

Instead, Suharto sought to legitimate his regime by developing the economy with high rates of growth. He quickly implemented macroeconomic stabilization, liberalized the foreign trade regime, and pushed a 1966 law which granted import and tax concessions to attract foreign investors. Furthermore, as a result of increased revenues due to the large rise in oil prices in the 1970s, Suharto began building Indonesia's services and infrastructure. The state especially targeted education, health, and physical infrastructure. Finally, the area of agriculture received special attention by the government, making Indonesia self-sufficient in basic foods production (Vatikiotis 1993, 34-5; Schwarz 1994, 57-8).

However, while Suharto continues to rely on economic development as a source of legitimacy, in the mid-1980s he increasingly began to utilize Islam to broaden his base of support. The government, as Schwarz points out, "relaxed restrictions on the use of the *jilbab* headscarf at public schools, introduced more Islamic elements into the national school curriculum, and gave more authority to Islamic courts" (Schwarz 1994, 175). *Golkar* increasingly began to appeal to Muslims by highlighting the government's role in building mosques

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and by sponsoring and participating in Islamic festivals and conferences. In addition, Suharto and his family increasingly adopted Muslim lifestyles and made a well publicized pilgrimage to Mecca in 1991.

The resurgence of Islam "from below" followed and coincided with a series of developments. As indicated previously, the 1970s witnessed a massive increase in rural-to-urban migration which resulted in housing shortages and pressure on wages. The inability of the government and the private sector to effectively respond to this crisis may have contributed to the growth of Islamic opposition.

Perhaps the most important indication of Suharto's appeal to Islam as a source of legitimacy is his support for the Indonesian Association of Muslim Intellectuals (ICMI). Founded in 1990, the ICMI's declared goals are to unify Indonesia's Muslims, promote their economic well-being, and promote Islamic values in public policy. Although the ICMI disavows any overt political role and does not openly call for an Islamic state, the move by Suharto to support it proved to be controversial as it was vociferously opposed by some military leaders.[4] However, despite the controversy, Suharto's support for the ICMI is not intended to promote a new state ideology or establish an Islamic polity. Rather, he seeks to co-opt a potential opposition group. As Schwarz (Ibid., 176) explains,

> [Suharto] has been careful to structure ICMI in a way that constrains the inclinations of its more radical members. By surrounding the most vocal Muslim critics with bureaucrats and more moderate Muslim figures, the president is counting on bringing the most critical ICMI members into the establishment fold with the promise of more influence in government decision-making.

The regime's appeal to Islam coincided with three developments. First, the government increasingly came under attack for its perceived corruption. Persistent charges of corruption have been made since the mid-1970s and continued into the late 1980s as Suharto and his

[4] For a detailed analysis of the rise of the ICMI, see Hefner (1993). He believes that the move to support the new organization is Suharto's way of responding to a growing rivalry with certain segments of the military as well as an attempt to capture the support of a segment of the religiously inclined urban middle class.

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family faced a barrage of criticism for their ever-increasing wealth (Vatikiotis 1993, 37-8 & 136). Second, the regime continues to face charges of anti-Muslim biases and "Christianization" of the state. Specifically, Muslim groups have criticized the government's supposed alliance with Christians which, they claim, dominate the bureaucracy and army (Johns 1987, 219). Third, the regime's increasing appeal to Islam corresponds with the resurgence of Islam in public life. As discussed earlier, public expression of religiosity became widespread in the 1970s and 1980s and this fact was not lost on the regime.

Yet, despite a greater appeal to Islam, the government of Suharto has not abandoned its traditional sources of legitimacy. The state elite still relies on the *Pancasila* as its sole ideology, economic development as its crowning achievement, and the military as its defenders. Its recent accommodation of Islam, therefore, must be seen as an ancillary source of legitimacy, not as an attempt to establish a new identity for the state elite.

Islam "from below"

Islam as an opposition force is not a new phenomenon in Indonesia. From its early days of independence to the present day, Islamic groups, organizations, and parties continue to oppose the status quo with varying degrees of militancy and accommodation. What is unique about the recent period – 1970s to 1990s – is the noticeable increase in the expression of an Islamic identity in public as well as the proliferation of new centers of Islamic opposition. Although extremist organizations and groups are hardly noticeable,[5] Muslim activism became increasingly based in mosques and around privately held religious meetings known as the *pengajian* (Liong 1988, 894).

In addition, while the Islamic revival tends to center around university campuses, mosques, and private meetings, it also has affected the educated elite and middle class professionals (Schwarz 1994, 174).

The resurgence of Islam "from below" coincided with three developments. First, similar to Egypt, Indonesia faced a rapid increase in

[5] Islamic militancy in Indonesia of recent years has largely been limited to the Ache region, located in Northern Sumatra, and is mainly a response to the undue control of the region by a Javanese-dominated center which is seen as exploiting the resource rich regions to its sole benefit (see Schwarz 1994)

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urbanization since the 1970s. As Kuipers (1993, 84-5) points out, "from 1971 to 1990 the percentage of the population living in urban areas rose from 17 percent to nearly 31 percent nationally." He adds, this movement mainly resulted "from the lack of employment in the countryside."

In Egypt, massive urbanization from the rural area led to severe social problems. However, in Indonesia it is difficult to assess the impact of this increase in urbanization for two reasons. First, urbanization was accompanied by government attempts to relocate many people from heavily populated cities (mainly Java) to the outer Islands. From 1969 to 1989, the government managed to relocate some 730,000 families to less populated Islands of the archipelago (Ibid., 86). Whether this policy of transmigration helped mitigate rapid urbanization is unclear. Second, as mentioned earlier, the government, after the oil boom of the early 1970s, took active measures to rebuild Indonesia's infrastructure to facilitate economic development. Not only did the government provide health and educational facilities, it was able to alleviate poverty and raised the per capita income from about $US 260 in 1970 to over $US 500 by 1980. As Vatikiotis (1993, 35 & 37) explains,

> [d]espite the demographic pressure on resources, qualitative improvements to the well-being of ordinary Indonesians have been the hallmark of Suharto's rule, and most observers agree that the benefits brought to the country by the New Order almost overshadow the social and political side-effects.

Yet, despite rapid growth rates and reduction in absolute poverty, the latter is far from eliminated. As late as 1987, it was estimated that the number of Indonesians living in absolute poverty is 30 million or 17 percent of the population with many more barely living above the poverty line (Marshall 1993, 167). Whether these people mainly come from rural areas as a result of migration is unclear and the available data does not indicate this to be the case.

The second development coinciding with the resurgence of Islam is the growing Westernization of Indonesia. Suharto's policy to restructure the economy by expanding the private sector and inviting foreign investment had similar results to what we saw in Egypt. Those who benefited greatly from liberalization did not hesitate to

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flaunt their wealth by adopting "vulgarized Western life-styles" (Liong 1988, 889). Indonesia's middle classes increasingly purchased Western goods such as electronic equipment, automobiles, and clothes from huge department stores. Even the poorer segments of the population "go to the ubiquitous cinema, listen to the radio, and often see programs on television" (von der Mehden 1986, 175-6). These developments challenge traditional religious values and are often considered immoral and un-Islamic by the religiously minded.

The discontent with the growing secularization and Westernization of Indonesia was violently expressed in 1973 and 1974. After the government introduced a secular marriage law which sought to place all religious communities under a single system, many Muslims protested through demonstrations and even occupied the parliament. Shortly afterwards, Muslims rioted and attacked "night-clubs and 'other places of sin'" (Crouch 1981, 204). The secular/Western nature of the Indonesian state has been the main target of both established Islamic parties and emergent Islamic groups.

The third development coinciding with the resurgence of Islam is the growing dissatisfaction with the political system and ruling regime. As pointed out earlier, Muslims had high hopes that the Suharto regime would be more responsive to their demands. Instead, his style of authoritarianism sought to effectively silence political Islam. Paradoxically, the more the government increased its repressive and co-optive measures, the more Islamic activism at the grass-roots level increased. After forcing the Islamic PPP to adopt the *Pancasila* as its sole ideological foundation, many Muslims became "so thoroughly disgusted with [their] leadership's capitulation that [they] gave up on the party entirely" (Hefner 1991, 210). Yet, barred from organizing on the basis of Leftist principles and Indonesian nationalism completely monopolized by the state, the "mosque became, in the words of one Muslim intellectual, 'a sanctuary for the expression of political dissatisfaction and frustration'" (Vatikiotis 1993, 129).

In addition to a closed political system, the ruling regime is perceived as corrupt, dominated by alien interests, and out of touch with the public. As indicated earlier, the government (and specifically Suharto and his family) faced a barrage of criticism for its corruption as illustrated by the 1974 and 1978 student demonstrations which targeted Suharto's cronies and his wife for their shady business dealings (Ibid., 36-7). Increasingly, however, such charges are accompa-

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nied by claims of foreign domination, particularly Chinese domination. Suharto is accused of kow-towing to Western technocrats and Chinese businessmen, to the detriment of indigenous interests. As McVey (1983, 219-20) explains, the regime's

> alienation is enhanced by the effective abandonment of a nationalist appeal through its close association with foreign countries, particularly the United States and Japan, and by the public reliance of key leaders on the advice and economic patronage of members of Indonesia's Chinese minority, who form much of the country's independent bourgeoisie and are widely viewed, particularly by the *santri* [devout Muslims], as economic and cultural enemies.

In sum, Indonesia has witnessed the resurgence of Islam "from below" since the 1970s as indicated by the rise in mass Islamic consciousness and the proliferation of grass-roots Islamic organizations and groups. The Islamic revival coincided with rapid urbanization, Westernization of society, and growing political alienation among the public vis-à-vis the state and ruling regime.

IV. Comparing Egypt and Indonesia

The preceding discussion indicates that there are important similarities and differences between Egypt's and Indonesia's Islamic Resurgence. It is useful to highlight these similarities and differences before proceeding to evaluate the crises theses in the following section.

In both countries we see the resurgence of Islam manifest itself both as a tool of state legitimation and as an expression of public discontent. In both Egypt and Indonesia the ruling regime – beginning with the 1970s in Egypt and 1980s in Indonesia – appealed to Islam and Islamic groups, although with varying degrees of commitment. In Egypt, Sadat actively sought to promote an Islamic image by increasing his use of Islamic symbols and by supporting Islamic groups against his Leftist opposition. Mubarak, while he did not follow Sadat's path with regards to political Islam, did increase his reliance on established sources of Islamic authority. In Indonesia, after attempting to silence the Muslim opposition parties in the 1970s and early 1980s, Suharto's regime increased his use of Islamic symbolism and supported various Islamic causes after the middle of

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the 1980s.

In both countries the ruling regime's appeal to Islam coincided with serious challenges to their legitimacy and ability to rule. In Egypt, Sadat faced a severe economic crisis as a result of previous developmental strategies as well as massive urbanization. As he sought to shift the course of the economy, he faced opposition from the Nasserists. These challenges combined with charges of corruption and kowtowing to foreign interests (i.e. the United States and, later, Israel). Similarly, Mubarak faced tremendous (often violent) political opposition from Islamic forces. The economic crisis he inherited from the previous regime did not let up but instead worsened. In Indonesia, Suharto's regime faced charges of corruption and anti-Muslim (i.e. Christian) biases. In addition, his close ties with the Chinese business community were seen as detrimental to "indigenous" Indonesians and an indication of the regime's corruption.

As far as Islam "from below" is concerned, both countries experienced a noticeable increase in mass Islamic consciousness, growth in informal Islamic groups and organizations, and an increase in Islamic opposition to the status quo. However, Islamic extremism runs deeper in Egypt than in Indonesia as indicated by the level of violence against the state and civilians as well as by the number of militant organizations present. Furthermore, in Egypt, while the Islamic revival cuts through class differences, militant Islam tends to manifest among the student milieu and the recently urbanized segments of the population. In Indonesia, given that Islamic groups tend to be active on university campuses, and since many of the activists are described as young (Liong 1988, 888-90), one can infer that religious groups are mainly composed of students (although I am unaware of any formal studies of the social composition of Islamic groups in Indonesia). However, it is not clear whether the recently urbanized constitute the largest proportion of Islamic activists or groups.

In both countries the resurgence of Islam coincided with rapid urbanization since the 1970s, growing Westernization of society, and dissatisfaction with the political system. However, whereas Egypt experienced a persistent economic crisis related to rapid urbanization and inadequate development, Indonesia experienced high growth rates since the 1970s, with few exceptions. Furthermore, the Indonesian state promoted infrastructural development which

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sustained growth and alleviated poverty. While there remains high rates of absolute poverty in Indonesia, the country did achieve a level of development to be considered one of the newly industrialized economies.

V. Evaluating the Crises Theses

The preceding section suggests that there is a great deal of evidence based on the cross-country comparison of Egypt and Indonesia to support the propositions of the crises theses. However, the case studies also indicate that some qualifications and modifications must be made. In what follows, I evaluate each hypothesis in light of the previous discussion.

Hypothesis 1: Generally, the more a political elite in a Muslim country lacks legitimacy, or is on the defensive, the more it will resort to Islamic symbolism and religious legitimation.

This hypothesis is supported by the cross-country comparison of Egypt and Indonesia. In both cases, as indicated in the previous section, the ruling regime's appeal to Islam followed or coincided with serious challenges to its legitimacy or was carried out in an attempt to weaken or co-opt opposition forces. Furthermore, the state's vacillation between accommodation and repression of political Islam, witnessed in both countries under study, suggests that its policies toward Islam are motivated by political factors rather than ideational change, thus lending credence to the legitimacy crises theses.

However, it is important to point out that a legitimacy crisis is a necessary but not sufficient condition for Islamic resurgence "from above." In Egypt, given that Sadat and Mubarak were set on a new economic course based on economic liberalization, the state elite could not appeal to Nasserist (Leftist) principles as a source of legitimation. Since Sadat's and Mubarak's form of nationalism was discredited, Islam became the only viable source of legitimation. Hence, the absence of a viable alternative to an Islamic ideology was the sufficient condition which led the ruling regime to increase its use of Islamic symbolism. In the case of Indonesia, the state continues to reject an overtly Islamic ideology; instead, it relies on the *Pancasila* which is nationalistic and developmentalist in tone, despite its vague

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reference to the "belief in one God." Part of the reason for holding on to the *Pancasila* is that it still commands legitimacy among the general public, especially when combined with economic development. Therefore, the sufficient condition of the absence of an alternate ideology is not present in Indonesia. This explains its partial reliance on Islam as a source of legitimation.

Hypothesis 2: Generally, the more a traditional Islamic society is Westernized, the more it will witness an increase in mass Islamic consciousness.

The cross-country comparison corroborates this hypothesis. In both Egypt and Indonesia the resurgence of Islam coincided with policies of economic liberalization in the 1970s which introduced Western modes of consumption and brought large segments of the population in touch with Western life-styles. The widespread nature of the Islamic revival, cross-cutting class differences (and ethnic divisions in Indonesia), suggests that the phenomenon has its roots in something broader than class conflict or lack of economic development. Therefore, to claim that the resurgence of Islam is partly a response to an identity crisis generated by Westernization of traditionally Islamic societies is confirmed.

Hypothesis 3: Generally, in a situation of persistent economic crisis, many of the recently urbanized sector of the lower-middle class will join Islamic groups or organizations which oppose the status quo.

The evidence generated by the cross-country comparison provides some support for this hypothesis but more research is required to enable us to reach a more authoritative conclusion. Although the Egyptian case does provide evidence that the recently urbanized constitute a larger proportion of Islamic militants, in Indonesia radical Islamic groups are virtually non-existent and therefore it is difficult to assess the causal connection between rural-to-urban migration and the resurgence of Islam. As for the religious groups operating outside the purview of the Indonesian government and established political parties, there is little (if any) research on the social background of their members. The Indonesian case does indicate that the resurgence of Islam coincided with massive urbaniza-

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tion; however, this correlation is not enough to support the causal claim made by the hypothesis.

Furthermore, Indonesia did not experience a persistent economic crisis during the period of rapid urbanization. Yet it did witness the rise of Islamic groups. This appears to falsify the hypothesis; but it would be a mistake to do so without further investigation. While growth rates and per capita incomes did rise, it does not follow that the recently urbanized benefited from this process. The proliferation of Islamic groups in Indonesia may have been primarily the result of increased Westernization or sociopolitical alienation.

Thus, the evidence generated by the cross-country comparison is not adequate to allow us to confirm or disconfirm the hypothesis. However, the hypothesis should be amended to account for the high proportion of university students participating in activist Islamic groups and organizations. The Egyptian case indicates that young university students made up the largest percentages of such groups. The Indonesian case suggests a similar conclusion.

Hypothesis 4: Generally, in a period of sociopolitical alienation, the recently urbanized sectors of the lower-middle class will join Islamic groups or organizations which oppose the status quo.

Similar to hypothesis 3, hypothesis 4 is partially supported by the case studies but more research is required to enable us to reach an authoritative conclusion. In both Egypt and Indonesia there appeared to be an increase in sociopolitical alienation among the public since the 1970s as indicated by growing charges of government corruption and dissatisfaction with the political process. The mosque, in both countries, became the only place where people could express their dissatisfaction and frustration with the ruling regime and the existing order. As mosques increasingly fell under the state control, religious groups began to organize in private homes and around local centers of activity.

However, while the Egyptian case provides support that Islamic groups are mainly composed of the recently urbanized and university students, the evidence for Indonesia, as indicated above, is lacking. While sociopolitical alienation coincided with rapid urbanization, it is not clear if the two combined to contribute to the proliferation of formal and informal Islamic groups and organizations.

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Conclusion

In this paper, I attempted to test the validity of the dominant explanations of Islamic resurgence by way of a structured, focused comparison of Islamic revivalism in Egypt and Indonesia since the 1970s. The "crises theses," as I termed them, go a long way to explain the recent reassertion of Islam in the politics of Egypt and Indonesia. By applying the main propositions of the crises theses to each case study, I discovered that many of the developments subsumed under the phrase "Islamic resurgence" can be explained by the theoretical framework.

In both Egypt and Indonesia, the resurgence of Islam followed and coincided with a number of crises. In Egypt, both Sadat and Mubarak faced a legitimacy crisis due to worsening economic conditions, growing corruption, and political opposition. Both leaders attempted to respond to these challenges by appealing to Islam, with varying degrees of commitment. Similarly, Suharto's regime in Indonesia, beginning in the 1970s and intensifying in the 1980s, faced charges of corruption and of establishing illegitimate ties with "alien" groups. His response to this crisis was to support Islamic causes and appeal to Islamic organizations. However, the case studies also indicate that the "legitimacy crisis" explanation has to be qualified as a necessary but not sufficient cause. In Egypt, appeal to Islam can be attributed to the lack of a viable alternate ideology. In Indonesia, while the state elite appeal to Islam, their primary source of legitimacy is the *Pancasila*.

The Islamic resurgence "from below" can also be explained by the crises theses, with important qualifications. In both countries, the Islamic revival coincided with rapid urbanization, growing Westernization of society, and sociopolitical alienation due to circumscribed political processes and perceptions of foreign domination. However, while the Egyptian case provides strong evidence to link militant Islamic activity with rapid urbanization, the Indonesian case provides tenuous evidence at best. More research is required to establish a more convincing link between rural-to-urban migration and the rise of Islamic activism.

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The Future of the Gulf

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Growth and The Environment: Allies or Foes?

Vinod Thomas
Tamara Belt
Economic Development Institute, World Bank

Economic advances throughout history, just as in the contemporary developing nations, have too frequently taken place at the expense of the environment. Today there is an increasing realization that protection of the environment is essential for long-term economic success; the only question is how this realization can be translated into ecological reality.

Over the past quarter of a century, economic growth per capita in the southeast part of East Asia – Indonesia, Malaysia, Singapore, and Thailand – averaged five percent a year. Socioeconomic well-being improved enormously. In Indonesia, Malaysia, and Thailand, the percentage of the population living below the poverty line is estimated to have declined by some 50-70 percent. Starting from even earlier periods, Hong Kong, Japan, Korea, Singapore, and Taiwan Province of China made dramatic economic gains. Over the past decade and a half, China experienced very high growth rates and a sharp reduction in poverty.

At the same time, environmental losses in East Asia have surpassed in many respects those of other regions. For example, 9 of the world's 15 cities with the highest levels of particulate air pollution are in this region. About 20 percent of land covered by vegetation suffers from soil degradation owing to waterlogging, erosion, and overgrazing at levels above world averages. Fifty to 75 percent of coastlines and marine protected areas are classified as areas with highly threatened biodiversity, and the region has witnessed some of the highest deforestation rates in the world.

One lesson is that rapid growth can be a great ally of poverty reduction when supported by certain policy fundamentals. In East Asia these have included substantial and efficient investments in education, a relatively good income and asset distribution, a labor-intensive export orientation, and an emphasis on agricultural development. A second lesson, however, is that rapid growth has

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come at the expense of the environment. Rapid growth does not automatically improve the environment – environmental policies must also be put in place.

To be sure, many growth-inducing policies, such as clarifying property rights, investing in sanitation, improving education (especially for girls), and sound economic policies, help to improve resource use and contribute to a better environment. But in crucial areas, such as the control of pollution or sustainable forest use, environmental actions such as imposing taxes and standards, investing in technology, improving production methods, and recycling are necessary. Rapidly growing economies are learning this lesson the hard way and some are now taking corrective actions.

It is also interesting to focus on Central America. For a variety of economic and sociopolitical reasons, the Central American economies have grown slowly in recent decades, although their potential for sustainable development remains high. An exception is Costa Rica, a country with a strong record in promoting human development. But, more generally, the economies of Central America have been dominated by traditional exports, which have faced declining terms of trade; by a highly unequal income distribution; and by inadequate educational investments all exacerbated by political instability. Costa Rica remains a notable exception. Because growth rates have been low, poverty levels have remained stubbornly high – as in other regions with slow growth. Environmental quality has deteriorated – there are large deforested areas, soil degradation, overfishing, and polluted water in coastal zones.

The experiences of East Asia and Central America show that both slow- and fastgrowing economies can suffer from severe environmental degradation. The question then is whether, with the right priorities and policies, the environment can be protected irrespective of the pace of growth.

Growth per se is not to be blamed for environmental degradation, but, in some respects, rapid growth appears to make the problem worse. When the sources of environmental problems – underpriced resources (forests, water, or air), weak institutions, and unclear property rights are not addressed adequately, rapid growth seems to aggravate them. However, growth and high incomes can mitigate environmental degradation and improve resource use if accompanied by timely environmental actions.

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Grow First and Clean up Later?

The human and ecological costs of environmental deterioration have been widely studied. In many instances, convincing evidence is available of the large social gains from environmental actions. And yet, environmental actions have been inadequate. The literature has emphasized a basic reason: the divergence between what is beneficial to society and what is beneficial for the private individual. When coupled with the lack of resources at low income levels, the pattern worldwide has been to grow first and clean up later.

Experience that calls this approach into question is accumulating. For one thing, it is a costly strategy socially and ecologically, and might threaten the sustainability of growth itself. Furthermore, new institutional arrangements, technologies, production methods, and targeted investments are beginning to offer opportunities to address growth and environmental protection in ways that are good for government finances as well as for private business.

The High Cost of Ecological Damage

Ecological damage is often irreversible. Cleaning up later is not an option when terrestrial and aquatic biodiversity has been lost because of habitat destruction. For example, pollution and destructive fishing techniques have damaged a large proportion of coral reefs in some areas. As up to one-fourth of all marine species and one-fifth of known marine fish species live in coral reef ecosystems, the loss of reef habitats disproportionately threatens a high percentage of the ocean's plant and animal life. Complete reversal of this damage is unlikely; therefore, efforts need to focus on preserving global biological resources before they are damaged.

Environmental pollution causes considerable health costs, which are compounded when pollution control is postponed. Some of the evidence comes from widely publicized episodes – for example, mercury poisoning from a manufacturing firm in Minamata, Japan resulting in severe neurological afflictions ("Minamata Disease") for people in the area since the mid-1950s, or exposure to toxic materials causing acute illness or death as in the Bhopal, India tragedy of 1984. Other evidence, even if less visible, is widely prevalent, such as the steady health losses to children and adults from air pollution.

The cost is usually far less than the benefits to society of investing in pollution control. In this regard, an ounce of prevention

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is worth a pound of cure. It is usually cheaper to control pollution at its source through policy reforms, especially by removing subsidies, than by investing in pollution control later.

With proper concern for the environment, scarce resources can be put to high-return and sustainable uses. For example, in parts of Southeast Asia, uplands can be used for sustainable planting of fruit trees or other perennials rather than for planting maize or cassava for a few years and then abandoning cultivation as yields decline. Similarly, in areas of Latin America, forests can be protected for their higher social value rather than converted to ranches that generate negative returns. And in many cases, putting a resource to multiple uses generates a large net benefit. For example, management of tropical forests for multiple uses that include nontimber goods, water and soil conservation, biological diversity, and other environmental services, as well as timber, could generate higher social returns as well as revenue.

Bringing in Revenue

Applying pollution taxes, in addition to inducing lower emissions and better conservation of resources, can raise revenues that allow governments to scale back more distortionary forms of taxation. In Thailand, for example, a 10 percent tax on the coal and lignite used in manufacturing could yield a return of 1 to 2 percent of government revenue. The cost of such a tax is usually a fraction of the estimated health benefits it helps to produce.

It's good business. Finally, there is the economy-wide link between a country's competitiveness and the environment. In one direction, trade liberalization without environmental policies makes the environment more vulnerable. The higher prices for forest resources resulting from trade liberalization can lead to excessive deforestation if property rights are unclear and logging rights fail to incorporate the resource costs. In the other direction, trade liberalization can increase the profitability of industries that have environmental safeguards in place.

How Can it be Done?

Although the record is limited, innovative approaches in East Asia and Latin America offer the promise of growth with sustainable resource use. To take one example, a coalition of conservation and

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research organizations in El Salvador developed an ecolabeling initiative, ECO-OK, to give coffee farmers the incentives and information to produce coffee in an eco-friendly way. The program simultaneously raises awareness and motivates consumers to seek products from socially and environmentally responsible farms. ECO-OK products meet environmental standards that protect rain forests, workers, and wildlife.

User Charges and Tradable Resource Rights

Experience with market-based instruments and regulations, notwithstanding the obstacles to their enforcement, illustrates the range of policies that are possible and widens the debate on options. In East Asia, considerable progress has been made in removing subsidies on gasoline, diesel, and kerosene. In Latin America, there are several examples of the application of market-based instruments (see table). Some have been ineffective in achieving their full objectives as a result of institutional weaknesses such as under-funding, unclear jurisdiction, monitoring requirements, and legal design requirements. Nevertheless, there are some promising examples:

Resource User Charges

Brazil, Colombia, and Venezuela charge a forestry tax when tree harvesting is not compensated by equivalent reforestation. So far the taxes have been set at too low a level, and enforcement has been weak; nonetheless, the principle is sound.

Joint Implementation Agreements

Central America is relatively advanced in the creation of agreements for carbon sequestration through forest protection under Joint Implementation programs. Costa Rica has just initiated such an agreement with Norway. The development of such agreements will depend in part on an emerging international consensus, but initial activities are promising.

Participation and Community Involvement

Where institutions are weak or enforcement is expensive, public participation and community involvement can be effective in enforcing sustainable resource use and adapting local conditions to development needs. Traditional communities have known and used

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this approach for ages. It could be strengthened for today's market economy, as evidenced in Japan. The local government and resident groups in Japan negotiate with firms to arrive at a detailed written agreement on emissions levels. Between 1971 and 1991, the number of agreements increased from approximately 2,000 to 37,000. Once standards were agreed upon, they were effectively implemented. This consensual approach benefits local governments, residents, and companies alike.

Mainstreaming Environmental Concerns

A crucial approach involves mainstreaming environmental concerns in national plans and policies. This means that the environmental consequences of actions pursued by finance and planning, as well as environmental, ministries are made explicit within core economic policies. In some countries innovative approaches to confront environmental problems are beginning to be applied. Mainstreaming them would mean that these options are put on the table at the time key fiscal, trade, and industrial policies are discussed. Their benefits and costs would be revealed, providing the basis to pursue the best approaches.

Inserting the environment into policy-making can produce much stronger results for economic growth and environmental sustainability than responding to individual environmental concerns along the way. Practical ways to do this are beginning to emerge, and there would be great benefit from disseminating them. More generally, integrating environmental awareness in education programs, especially at the early stages, and influencing values and behavior would be a fundamental step in mainstreaming environmental concerns.

Uncertainties

Tough questions remain with respect to both policy choices and the implementation of environmental actions. Win-win policy choices (for example, reducing energy subsidies to benefit both economic performance and the environment) should be relatively easy for the policy-maker to make. Pushing ahead with them should therefore be a high priority. But even in this case, there will be winners and losers from the changes, requiring the policy-maker to manage the political economy of reforms.

Policy choices involving trade-offs to the policy-maker are more

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difficult to make, even if society would benefit on balance (for example, financial investments for pollution control that produce net gains in health and welfare). This difficulty is compounded if the benefits accrue later and especially if future benefits involve uncertainty, or if some of the benefits accrue to the rest of the world (for example, part of the gains from biodiversity from the protection of forests). Financial constraints make the decision hard to take even if it is socially beneficial.

Higher incomes eventually contribute to the demand for a more sustainable environment, especially in the so-called "brown" areas such as urban pollution. Higher incomes also provide the resources to help address the problem. However, this chain of events is particularly delayed in the case of the "green" dimensions of the environment, which faces severe deterioration in the early phases of rapid growth. And they also involve unacceptable thresholds of degradation, and irreversible losses, such as biodiversity. Protecting the "green" aspects during rapid growth remains a tough challenge.

Countries' institutional capacity to make, implement, and enforce difficult decisions is a key consideration. Even the best solutions require the support of well-functioning markets and property rights. Where tradeoffs are involved, additional measures to align the social and private benefits (through taxes, quotas, investments, etc.) are needed. When the benefits go beyond individual countries, financial and institutional arrangements across borders might be called for.

These dilemmas need to be recognized. Clearly, priorities have to be set, resource limits acknowledged, and systemic processes put into place to help make tough choices. There is a growing body of experience on how innovative approaches can help address trade-offs and institutional rigidities. Meanwhile, the evidence on the high costs of not taking these measures is mounting.

Conclusion

In the main, the experience of rapidly growing countries has been to grow first and clean up later. However, this neglect of the environment has resulted in irreversible losses and high cleanup costs. Current experiences and policies, even if limited, demonstrate that it is possible to protect the environment, promote growth, and enhance competitiveness at the same time. Most developing countries can

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benefit from both the positive and the negative lessons of rapid growth elsewhere. If they can take economic and environmental actions now, they could become the "green tigers" of the future.

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Downsizing Bureaucracy: A Caveat Emptor

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Downsizing is a management tool aimed at staff reduction so as to make government work better and cost less. Rather than using the conventional personnel technique of reduction-in-force to thin the bureaucracy, public agencies have offered buyouts to employees who leave voluntarily, especially those who are close to retirement. Downsizing the bureaucracy through buyout has some appeal because it helps to meet mandated personnel ceilings without resorting to massive lay-offs. However it involves loss of expertise. Unless agencies engage in strategic workforce planning, their ability to carry out their missions may be diminished.

Downsizing is the process of shrinking the size of a bloated bureaucracy by reducing its personnel, reinventing its organizational framework and re-engineering its work procedures. To downsize or not to downsize is not the question for management. The question is where the cuts should be made. One point of view favors cutting across the board to spread the pain, but this is easier said than done due to the force field created by political actors involved in the process. For example, congressional intervention prevented a cutback in the Department of Veterans Affairs and the closure of some field units of the National Weather Service.

One solution is to rely on attrition because of its kinder and gentler nature (Ban, p. 274), but this is a slow process. Consequently, management may have difficulty in reaching the time frame set by legislative mandate. The more certain but painful way to reduce personnel is to resort to an outright reduction in force (RIF). When this happens, there will be suffering and pain for those who lose their jobs, and those who survive may lose their will to work in fear of another possible cutback. The negative effects of a reduction-in-force challenge the skills of cutback managers.

Alternatives to RIF

The experience of academic administrators in softening the weight of a mass lay-off can be replicated in the civil service system.

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When a comparative study of faculty-student ratios and workloads shows that departmental overstaffing exists due to low student enrollment or a disproportionate share of student credit hour production, some institutions have advised members of the faculty to consider retooling themselves to take a year off to re-train themselves to teach in other areas. However, this usually necessitates providing financial support to the faculty member during the re-training period, the existence of under-staffed departments, and the willingness of its members to work effectively with the new member.

A more effective way to cut back is to sweeten the pie by means of an early retirement program. Under this program, employees are induced to leave by adding several credits to the length of service, for those who qualify, so as to increase their annuity benefits. Potential early retirees are enticed by a continuation of state-paid insurance for health and dental care. The program will increase the budget modestly in the short term, but the long-term savings will offset the total cost. An example of a buyout program was the voluntary incentive separation program under the Federal Workforce Restructuring Act of 1994 (Public Law 103-226). Under this program, federal agencies were authorized to pay early retirees up to a total sum of $25,000 if they agree to leave the federal service by March 31, 1995. Congress extended the deadline to December 31, 1997, to allow more employees to take advantage of the program and to improve its implementation (see Table 1).

A Senate committee report projected a significant drop of federal employees from 2,095,182 at the start of the program in 1994 to 1,883,086 by the time the program ends in 1999 – a reduction of 212,096 employees over five years (see Table 2). Only a few unintended consequences have been observed, including among other things the loss of institutional memory as a result of the departure of experienced specialists and the return of a few former employees to their agencies as consultants from an outside management consulting firm or government contractor. Table 3 shows a more detailed list of negative as well as positive effects of the federal buyout program.

Early retirement has been criticized as the wrong way to shrink the government (Kettl, pp. 8, 59). The targeting of middle management to take buyouts and leave the federal service voluntarily as recommended by the National Performance Review team headed by Vice-President Albert Gore, Jr. (Gore, p. 164) has been described

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as a waste of resources in terms of experience and expertise. A great deal of time and money has been invested in their training and development, and it has been suggested that targeting cuts in the upper levels of management would have been more appropriate due to the political and partisan nature of these employees (Light, p. 60). However, a cost comparison has shown that outsourcing contract personnel would be in the best interest of some agencies (Senate Report 103-223), thereby re-engineering work procedures, re-inventing agency structure, and reducing the need for middle management.

In short, a buyout program aimed at middle management has been found to be a politically acceptable way of shrinking the civil service. In the words of President Clinton, "With buyout authority granted by the Federal Workforce Restructuring Act, agencies can target employees in the unnecessary high level job and maximize savings" (Weekly Compilation of Presidential documents, 1994). A member of Congress agreed by saying that "it is the most humane way to downsize...." (House Congressional Record, p. H-447). He added that it will bring about "a healthy mix of young people, with new ideas to move us into the future, alongside senior staff with corporate memory to help us build on the success of the past" (House Congressional Record, p. H-447). After two years of implementation, the size of the federal bureaucracy, according to a recent report, "is now smaller than it has been in over 30 years" (U.S. Office of Personnel Management, p. 1) with no negative effect on the gender and ethnic composition of the federal personnel system. In fact, "some agencies enhanced the representation of minorities and women. As males and whites took buyouts at a higher percentage than their representation in the workforce, the proportion of minorities and women actually increased." (GAO/GGD 96-62).

Strategies for RIF

When smaller jurisdictions cannot replicate the federal buyout program largely due to a scarcity of resources, a fair and reasonable policy is crucial to the development of an impartial and objective method of laying-off personnel. Such a policy would be a helpful and useful guideline for personnel administrators who will decide who should get the pink slip first and on what criteria the decision will be based.

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TABLE 1

COMPARATIVE FEATURES OF THE 1994 AND 1996 BUYOUT LAWS

ITEM	1994 BUYOUT LAW	1996 BUYOUT LAW
Availability	Between March 30, 1994, and May 31, 1995, agencies could give buyout but delay the employee departure until March 1997 if needed.	No delayed departures allowed. Buyouts begin Oct. 1, 1996, and end December 30, 1997.
Approval	Agencies had to submit a downsizing plan before buyouts.	Agencies must give Congress a detailed report outlining buy-out plans.
Eligibility	Employees with 12 months continuous service were eligible if their agencies targeted their job.	Employees must have three years of continuous service to be eligible.
Job Cuts	Total number of FTE in government dropped by one for each buyout. An agency could give buyouts but not reduce FTEs as long as FTEs went down somewhere in government.	Total FTEs in the agency paying the buyout must drop by one for each buyout given.
Retirement Fund	Agencies had to pay the civil Service Retirement and Disability Fund 9% of the base pay of the employee taking the buyout.	Agencies must pay 15% of base pay to the fund for each buyout.

SOURCE: Federal Times, January 6, 1997, p. 8.

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TABLE 2

FTE CEILINGS, BY FISCAL YEARS,
REQUIRED BY BUYOUT LEGISLATION

FISCAL YEAR	FTE CEILING
1994	2,095,182
1995	2,044,182
1996	2,003,846
1997	1,963,593
1998	1,923,339
1999	1,883,086

SOURCE: Senate Report 103-223, 103rd Congress, 2nd session, February 4, 1994, p. 7.

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TABLE 3

POSITIVE AND NEGATIVE OUTCOMES OF BUYOUT IN THE FEDERAL SERVICE

A. Positive Outcomes	Number of Agencies Responding
Allowed agencies to avoid or reduce the number of RIF	23
Allowed agencies to meet mandated FTE ceilings	20
Assisted agencies in aligning workforce with changing mission requirements	20
Assisted in improving agency diversity profiles	10

SOURCE: GAO/GGD, 96-62, Federal Downsizing, August 1996, p. 38.

B. Negative Outcomes	Number of Agencies Responding
Loss of corporate memory and expertise	15
Created work backlogs due to loss of personnel	11
Lowered morale of remaining employees	8
Agency projects have been delayed or cancelled due to staffing difficulties	5
Lowered productivity of remaining workforce	4
Reduced ability to oversee contractor operations	2

SOURCE: GAO/GGD, 96-62, Federal Downsizing, August 1996, p. 40.

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In doing so, the better judgment calls for a distinction between permanent and temporary employees, full-time and part-time staff, tenured and non-tenured workers. Having determined the status of employees, the pecking order will issue pink slips to temporary, part-time and non-tenured members of the agency. Under this policy, no permanent, full-time and tenured employee would be laid off until all temporary, part-time and non-tenured employees have been "riffed out" of the agency. When it is time to cut the permanent, full-time and tenured staff, the decision to "riff them out the door" will be based on tenure, seniority, rank, performance and veterans' preference. It should be pointed out that this is the most sensitive phase of RIF due to its impact on workforce diversity. Women will be disproportionately affected by veterans' preference.

Furthermore, the newly hired young talents fresh from public administration programs will be disillusioned and dismayed by a credibility gap between the promises of a public service career and the realities of insecurity in public employment. It is difficult to justify advising students to work for a public administration degree if it turns out that public employment is not as secure as they were led to believe.

Survivor Syndrome, Bumping and Retreating

As a weapon of last resort, the application of a policy defining the order of lay-off and establishing the criteria in laying-off personnel will enable an agency to achieve politically mandated personnel ceilings; this may be by "Bumping" or "Retreating."[1] Those who will be asked to leave will be bitterly disappointed because the loss of their job means loss of income and an end to their health insurance. Those who will remain will be infected with a "lay-off

[1] The United States General Accounting Office describes bumping and retreating as follows: "**Bumping** means displacing an employee in the same competitive area who is in a lower-tenure group.... Although the employee who displaces another employee through bumping must be qualified for the position, it may be a position that he or she has never held." GAO/T-GGO-96-124, May 23, 1996, p. 10. "**Retreating** means displacing an employee in the same competitive area who has less service within the same tenure group. The position into which the employee is retreating must be the same or an identical position which the employee held in the past on a permanent basis." Ibid. Retreating also means "placing employees in positions they have not occupied for years, for which their skills are, at best, rusty. These people will need training or retraining." (Ban, p. 272)

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survivor sickness" which erodes their sense of self-respect, weakens their will to work, undermines their ability to survive, and poisons the human spirit (Noer, p. xv). Overcoming the trauma of these conditions will test the leadership ability of personnel managers to transform them into opportunities for organizational renewal. There will be bumping or reassignment of senior employees, who then will be "riffed out" of the agency. When bumping takes place, the goal of making the public service look like America in terms of its diverse population will be a meaningless political sound bite. Women and minorities, who were the last to be hired, will be the first to be fired (Robinson and Drucker, p. 76). Some of those who will bump others have impeccable credentials and specialties that will become irrelevant in their new assignments. To conceptualize this, imagine a Ph.D. sorting letters in the mailroom (Ban, p. 272) or a scientist driving a forklift truck. Of course their salaries will still be the same, but the prestige of their former jobs will get lost in the shuffle. If there is no one to bump, an RIF survivor can be retreated to a position previously held. Unlike bumping, one who retreats to a previous job in the lower level may be forced to take a pay cut – a bitter pill to swallow, but it may be the only alternative to the unemployment line.

Conclusion

RIFs are expensive and dehumanizing. Those who are bumped out the door will take severance pay and apply for unemployment compensation. In contrast, a buyout program can bring about substantial savings for the government. By the time the federal buyout program ends in 1998, the projected departure of 272,000 employees will have thinned the bureaucracy (Shoop, pp. 12-13). It also will generate a savings of $22 billion, which could be used to reduce the budget deficit or put in a trust fund to pay for anti-crime programs (*Senate Congressional Record*, 1994; House Conference Report 103-104). With buyouts, those who agree to leave can develop new agendas in their lives, possibly including finding appropriate employment in the private sector or investing their windfall profits in the free-enterprise system. Buyouts are neither problem-free nor a panacea to all the ills of governance, but they can be installed with fail-safe arrangements to make them work better.

The end of a buyout program is the beginning of organizational

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renewal. It will also be the commencement of streamlining the organization to improve its performance and enhance its service delivery system (National Academy of Public Administration, 1996). Downsizing is not only a process of taking the weight off an overgrown bureaucracy through personnel cutbacks, but also a way of re-inventing bureaucracy to be more responsive to legitimate goals.

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Today's Economic Statistics: Poorly Suited When Put Forward as Measures of Well-Being

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There have been times, such as the summer of 1997, when economic statistics for the United States have told an almost-euphoric story of national well-being: inflation far down, unemployment at the lowest levels in years, increasing productivity, a booming stock market, and the federal budget deficit falling so rapidly that policy-makers have begun to talk about what to do when the budget starts showing a surplus.

All the while, there have been continuing news reports of corporate mergers, downsizings and restructurings, with abundant layoffs. In their personal lives many Americans have several acquaintances who are being retired early, or moving through a series of temporary jobs, or working at employment far below their qualifications, or waiting with bated breath to be ousted in a "reduction in force," or retaining a job only by moving hundreds of miles to a new location, tearing up roots with family and friends that the person had hoped would last a lifetime. For many people, their own income has hardly moved up in years, certainly not to match inflation, and they know that making any progress at all has depended upon a second income brought in by a working spouse. Often at the same time, however, if they are fortunate, they receive quarterly reports from their retirement stockfund informing them of gains at a dizzying pace, portending (if all remains well) an affluent old age.

How are these seemingly incongruous elements to be reconciled?

More by theory, certainly, than by statistics. It would seem that almost anything can be "reconciled," or not, depending upon ones wishes. Economic statistics today, in the hands of differing interpreters, can and do give widely varying pictures.

It is plausible to speak of "a crisis of statistics." Every subject is lost in a welter of claims and counterclaims, with all points of view citing statistics that confirm their position, so that it is almost impossible to penetrate through to reality on the basis of statistics

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alone. In this vein, *Business Week* in March 1996 spoke of a resulting "cognitive dissonance"[1] and Kenneth Auchincloss in *Newsweek*, talking about the figures for per capita income, says "the statistical argument is an impenetrable thicket."[2] In an enlightening article entitled "The Real Truth About the Economy: Are Government Statistics So Much Pulp Fiction?," *Business Week* in November 1994 said that "the economic statistics that the government issues every week should come with a warning sticker," adding that "the government is pumping out a stream of statistics that are nothing but myths and misinformation."[3]

And yet it is striking that Alan Greenspan, who as chairman of the Federal Reserve Board holds center stage in the making of economic policy, is willing freely to use standard statistics on such things as unemployment and the Gross Domestic Product as though they are fully meaningful, which they probably are for his purposes, since he's certainly no fool.[4] He sees the statistics, in their usual form, as conveying significant information. Just the same, he acknowledges the problem when he says that "the list of shortcomings in U.S. economic data is depressingly long."[5]

Whatever continuing value the statistics may have for some uses, for the purpose of understanding where the United States' and the world's economies are going in response to global high-tech, the criticisms in *Business Week* have considerable force. A current statistical category such as "Gross National Product" was adopted after World War II as a tool that was useful to economists at that time. With changing conditions, it and other measures are becoming increasingly ill-suited. *The Economist* suggests that a major reason "for the inadequacy of official statistics may be that the economy is simply becoming unmeasurable. Conventional methods of measuring the economy are no longer up to the task, and economists cannot agree on how to improve them."[6] The result is that we are forced to rely more on theoretical insight than we would like to in knowing

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[1] *Business Week*, March 11, 1996, p. 50.
[2] *Newsweek*, July 16, 1990, p. 31.
[3] *Business Week*, November 7, 1994, p. 110.
[4] See *Monetary Policy Objectives, 1997*, Federal Reserve Board Summary Report, p. 6.
[5] *Business Week*, November 7, 1994, p. 112.
[6] *The Economist*, September 28, 1996, page 16 of "The World Economy Survey."

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the current state of things. We would prefer, whenever we are dealing in the more purely empirical realm of trying simply to "know what's going on," that the "facts do the talking." The facts should speak loudly, with theory's role being to explain causation and relationships. But "the facts" are a welter of confusion, and can be chosen to confirm almost anything.

I offer these thoughts not as a form of intellectual nihilism seeking to nullify empiricism itself by denigrating its tools, but to inculcate a wholesome wariness about the statistics one confronts at every hand today and a desire to use statistics only with considerable sophistication about what, in any given case, the statistic includes and does not include. The fact is that a proper use of economic statistics requires great care. Many of the citations we see of statistics don't inform the reader adequately of the precise methodology used, especially with regard to what's included and what is not, and because of this shouldn't be accepted at face value. This will become especially clear as we review many of the main statistical categories presently in use and see what those writing on economic problems have had to say about them.

The commentary that follows is drawn from that literature. In preparing to write a book about the social-political implications of the oncoming global high-tech economy, I have read approximately 25,000 pages of recent economic writing and collated notes on hundreds of separate points. This has made possible a broad overview of the current economic dialogue, including its many disputes on the significance or appropriateness of this or that statistic. I am not a statistician myself and do not purport to bring expertise of my own to the debate. My reading has, however, gathered in one place the thoughts of several economists and economic commentators. It will be informative to review what they have to say.

I will begin with some of the more general observations about economic statistics and proceed to a review of such specific statistical categories as, e.g., "Gross National Product," "unemployment" and the "Consumer Price Index."

General Observations in the Literature

That the changing economic reality is making many statistical categories inadequate. The observation is often made that the present and coming reality of goods and services is shifting from underneath

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the customary statistical categories. It is with this in mind that Walter Wriston speaks of "the increasing inaccuracy or irrelevance of our standards of economic measurement," and says that "many of the terms we use today to describe the economy no longer reflect reality."[7] According to *Business Week*, the problem is largely that "most of the surging information economy – including software, telecommunications, and entertainment – is poorly covered by the data." Its discussion points out that such categories as gross domestic product (GDP), producer price index (PPI), and capacity utilization speak to traditional manufacturing, as was appropriate when they were conceived. This gives rise to such yawning gaps between the data and current reality as this: "Business investment in equipment, after adjusting for depreciation, is a full 30% bigger than the government statistics say." This is because most firms' spending on software and telecommunications equipment isn't counted. Productivity increases are underestimated because services are difficult or impossible to measure, and unemployment data miss a large number of males who have dropped out of the workforce altogether. As we go through the specific economic measures, we will be pointed to many discrepancies of this sort.

Of the authors I have read, Alvin Toffler has looked furthest into the future so far as this increasing gap is concerned. In *Future Shock*, published as long ago as 1970, he foresaw a day when society will have changed so much that "the very purposes of economic activity" will be different than they now are, with the result that "even the most sophisticated tools of today's economists [will be] helpless." He asked, as an example, whether Gross National Product would remain a meaningful concept in a country where "no growth" were to replace "growth" as the objective.[8]

That in today's emerging high-tech economy, statistics give little indication of the underlying direction of movement. Most of the applications and effects of information-based, non-labor-intensive technology have barely begun to catch hold. They show up in economic data more as the proverbial "small cloud on the horizon" than as already-established phenomena. A serious discussion of

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[7] Walter B. Wriston, *The Twilight of Sovereignty* (New York: Charles Scribner's Sons, 1992, pp. 92, 12.

[8] Alvin Toffler, *Future Shock* (New York: Random House, 1970), pp. 194-5.

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society looking even to the near-term future requires an eye toward emerging developments more than toward data that describe even the very recent past. The difference in perception that this occasions is part of the statistical debate between those who describe the current market economy in glowing terms and those who see vastly significant issues looming of worker displacement and income/wealth polarity. For the latter, a look ahead supercharges some of the data with more significance than they would seem to merit at face value.

That there are important reasons to be suspicious of economic statistics. A century ago, Henry George warned that:

> As for reliance upon statistics, that involves the additional difficulty of knowing whether we have the right statistics. Though 'figures cannot lie,' there is in their collection and grouping such liability to oversight and such temptation to bias that they are to be distrusted in matters of controversy until they have been subjected to rigid examination...Under their imposing appearance of exactness may lurk the gravest errors and wildest assumptions.[9]

The innumerable ways that statistics can convey an inaccurate impression comprise a subject of its own. Odds and ends from my notes help illustrate it: economist Paul Krugman warns, for example, that "it is important to be careful about starting and ending dates."[10] The varying phases of the trade cycle can make a big difference. If data are taken from the top of a boom and compared to those later from the bottom of a recession, an unfavorable result will follow; if the peaks and valleys are reversed in arriving at the "before and after," the results will be much more upbeat; the most informative (and honest) finding will come from data taken from comparable points in the trade cycle.

Some types of "data" are squishy, even though social scientists may use them (with or without caveats). Surveys, especially if they ask for subjective responses, are especially "soft." The sample that is

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[9] Henry George, *Protection or Free Trade* (New York: Robert Schalkenbach Foundation, 1966), pp. 24-5.

[10] Paul Krugman, *The Age of Diminished Expectations: U.S. Economic Policy in the 1990s* (Cambridge, MA: The MIT Press, 1994), p. 23.

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taken may in many ways differ from the population the survey seeks to describe. The authors of one survey about underemployment in Kansas acknowledged, as was proper, that there were "biases" from too-great disparities relating to urban versus rural, men versus women, the ages of the respondents, and levels of education. Often, many of those surveyed refuse to answer questions, such as to income, and this introduces a significant imponderable. And when somebody answers a subjective question, such as about whether he believes himself to be "underutilized," the answer itself depends upon personality and subjective factors that obscure the meaning even though the numerical scoring gives an impression of exactitude.[11]

In some subjects an element of selectivity is introduced just because researchers have found reasons to study some things more than others (sometimes no doubt in response to whatever grants are made available for research). We are told, for example, that "most of the systematic study of the diffusion of information technology is biased in significant ways. The majority of studies deal with manufacturing process technologies, and with nothing equivalent for services or office applications...."[12] The little-studied service area is, of course, the one that looms ever larger as we enter the Information Age. Similar gaps in the data appear when it comes to comparing something like employment around the world: statistics just aren't available for many countries and certainly for much of the past; and where they are available, the quality differs widely.[13]

That economic statistics are often manipulated for political or ideological purposes. The point hardly need be made, since it is so obvious, that statistics can easily become the handmaidens of charlatans, ideologues and special pleaders. Unfortunately, no point along the social-political spectrum can claim that all its partisans are free of this, even though we would like to think our own point of view, being correct, presents its case with an integrity unknown to the

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[11] Robert Glass, Charles Krider and Kevin Nelson, "The Effective Labor Force in Kansas: Employment, Unemployment, and Underemployment," *Kansas Business Review*, Fall 1996, pp. 15-17.

[12] Ken Ducatel and Ian Miles, "The diffusion of Information Technology in Europe," in Ken Ducatel, ed., *Employment and Technical Change in Europe* (Brookfield, VT: Edward Elgar Publishing Company, 1994), p. 37.

[13] Jaroslaw Wieczorek, "Sectoral Trends in World Employment and the Shift Toward Services," *International Labour Review*, Vol. 134, 1995, No. 2, p. 205.

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others. The debates of our own time offer many examples of the misuse of statistics.

Labor Secretary Robert Reich's pessimistic data about American jobs and income is challenged by free-market economist Richard Vedder when he points out "that Reich's data do not include fringe benefits, such as medical insurance, paid vacations, and pension plans." This criticism makes sense, since data stripped of those elements tell just part of the story. In the column that speaks of Vedder's criticism, economist Mark Skousen says that it is often better to look at the "quantity, quality, and variety of goods and services" people are consuming than to look at average real wages.[14]

On the other hand, free-market economists John H. Hinderaker and Scott W. Johnson, in an article much welcomed by free-market supporters defending today's economy from alleged extremes of inequality, use selective data to their own advantage when they note, for purposes of making a comparison with today to show that there is less inequality than there used to be, that "in 1913, the richest five percent of the population earned about thirty percent of aggregate income (excluding capital gains)."[15] But why exclude capital gains? A true picture of the "earnings" of well-to-do people can hardly be given while eliminating one of their principal sources of wealth-enhancement. (We will see in the later section here on income statistics that the capital gains issue is a complicated one, indeed.) At least Hinderaker and Johnson tell their readers of the exclusion. But the notification hardly seems enough in a context where the insufficient "earnings" data are used to make a seemingly telling point. Without the more complete comparison of 1913 with today, we don't know what to think of their argument. They would like us to believe, though, that they have made their case. (None of this is to say that their argument is less than honest. It is almost impossible to make any contention persuasively, especially in writing for a popular audience, while encumbering the material with all of the qualifications that a complex subject requires.)

Few will be surprised today that the government engages in

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[14] Mark Skousen, "Overworked and Underpaid?," in *The Freeman*, volume for 1996, p. 734.

[15] John H. Hinderaker and Scott W. Johnson, "The Truth About Income Inequality," *The St. Croix Review*, June 1996, p. 25.

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statistical sleight-of-hand by leaving out important information. Hank Brown and Richard Lamm, former U. S. Senator and governor respectively of Colorado, make the point that "the government's accounting system does not honestly account for the full yearly deficit or the total debt...The real cost of government services has to include the 'unfunded liabilities' from services we consumed and promises we have made. The official debt figures do not reflect the unfunded costs of military pensions, federal Civil Service pensions, unfunded liabilities of Social Security and Medicare...."[16] Can we imagine someone's filling out a balance sheet as part of an application for a personal loan and not including most of his legally binding liabilities? He would run considerable risk of being charged with fraud.

That economic statistics are available to give diametrically opposite impressions about the economy. In the passage that spoke of "cognitive dissonance," *Business Week* in 1996 told how some data report "8 million jobs created in four years, the unemployment rate at 5.8%, inflation down to 2.7%, corporate profits on a four-year roll," all very favorable, while at the same time other data say "real wages have been stagnant for most the past two decades" and that "the distribution of income among Americans has become more unequal over the same period."[17] A good example is provided by David Awbrey's May 1996 column in the *Wichita Eagle* telling how Kansas had benefitted from U.S. trade policies; he cited the thousands of new jobs created by international trade, and how aircraft manufacture and wheat sales were up. A responding column by Alan Tonelson and Vanessa Fuhrmans of the U.S. Business and Industrial Council Educational Foundation argued that "real median wages in Kansas – the best measure of living standards – have dropped by 8 percent for men and 2 percent for women since 1989...[T]he changing composition of jobs in Kansas recently explains why...Kansas' biggest job-creating industries from 1983 to 1993 were in low-paying sectors...." The debate proceeds from there, with Tonelson-Fuhrmans pointing out how Boeing had recently shifted significant production

[16] Op-ed column "Accounting Masks Deficit" special to the *Los Angeles Times*, as published in the *Wichita Eagle*, July 22, 1997.

[17] *Business Week*, March 11, 1996, p. 50.

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to China.[18]

That particular debate is just a microcosm of a similar difference of opinion – and of statistics – at all levels and on virtually every point.

Specific Statistical Categories

Income Data

Each statistical category can be useful – even if a number of things are not counted in arriving at it that seem to pertain – if the statistic is used by professionals who bring to it a sharp awareness of precisely what they want it to measure. To the extent, however, that something like "income data" is put forward in the general literature as telling non-specialists about changes in peoples' well-being, the debate over what should and should not be counted is very pertinent. Recent income data have been criticized as leaving quite a lot out of account.

Failure to Consider the Effect of Taxes on Comparative Incomes

In *Upward Dreams, Downward Mobility*, Frederick Strobel is critical of an income study made by Michael Horrigan and Steven Haugen that found (as summarized by Strobel) that "the middle-class decline in the 1969-1986 period was largely due to increased mobility to the upper class." The study was based only on before-tax income data, as Horrigan and Haugen themselves pointed out when they wrote that "the ideal data, after-tax income[,] are not available." Strobel argues that the owners of capital have managed to avoid taxes on income and property, with the incidence of taxation accordingly falling onto others.[19] This means that the unavailability of after-tax data could reverse the outcome of the study. Note, however, that from an opposing point of view Edwin Rubenstein argues that the exclusion of taxes from household-income data makes the rich look

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[18] Alan Tonelson and Vanessa Fuhrmans, "How Trade Affects Kansas," *The Wichita Eagle*, May 26, 1996.

[19] Frederick R. Strobel, *Upward Dreams, Downward Mobility: The Economic Decline of the American Middle Class* (Lanham, MD: Rowman & Littlefield Publishers, Inc., 1993), p. 51.

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better off than they are.[20] Despite their differences, Strobel, Horrigan, Haugen and Rubenstein all apparently agree that before-tax income data give a misleading picture.

Failure Adequately to Consider Capital Gains and Losses

Rubenstein says it is "a common complaint" against the Bureau of the Census figures on average household income that "they exclude capital gains and therefore understate income at the top."

He counters this in part when he says that "to add the capital gains and not subtract the taxes, as some CBO [Congressional Budget Office] figures do, is indefensible." To this he adds that it is useless to estimate capital gains from a sample of tax returns, since asset-owners' willingness to sell assets and report capital gains will vary from year to year based on such a thing as a change in the capital gain tax rate. Further, he argues that it makes no sense to omit capital losses that are above the tax-deductible $3,000, as the CBO has. Still further, a lot of capital gain isn't real earnings, but the mere increase in nominal value of an asset caused by inflation.[21] He gives the example of a farmer who buys a farm for $50,000 and forty years later sells it for $260,000. It looks as though the farmer has made a lot of money, but when inflation is considered he actually isn't any wealthier (and even has taxes to pay on the supposed increase!)[22] Rubenstein points out, too, that the CBO is inconsistent when it counts some capital gain but doesn't take into consideration "capital gains and other income accruing to the middle-income brackets in the form of pension funds (which amount to some $3 trillion) or home values."[23] He argues that, in fact, capital gains should be excluded from the income data, since many realizations of capital gains are "one-time or sporadic events" that skew any picture of annual earnings.

All this points to the fact that an inclusion of capital gains introduces serious problems. Just the same, how is it possible to say that income data give an accurate picture without them? All of

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[20] Edwin S. Rubenstein, *The Right Data* (New York: National Review Books, 1994), p. 205.

[21] Rubenstein, *The Right Data*, p. 205.

[22] Rubenstein, *The Right Data*, pp. 22-3.

[23] Rubenstein, *The Right Data*, p. 217.

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Rubenstein's criticisms are well taken, but they leave intact the essential observation that the appreciation of the value of property can be, and is, an important source of earnings for many people (especially the rich, professional people with stockfund holdings for retirement, and homeowners). Earnings in a modern economy are far from just "payroll checks received." If what we want to measure are changes in and comparisons of well-being, it is untidy in a variety of ways to include capital gains, but also very deceptive not to. A point to keep in mind is that most presentations of "income" figures one sees tell the reader nothing, or almost nothing, about how all these issues of inclusion, exclusion and adjustment have been resolved in arriving at the figures. Accordingly, the true information-content of the data for the average reader should be considered next to nil.

Failure to Consider Unreported Income and Non-cash Benefits to the Poor, the Elderly, and Others.

The polarization of income will be vastly overstated if major sources of support going to groups with lower or medium earnings aren't counted. For example, *Business Week* reports a study that, based on tax rather than survey data, reveals that "Census Bureau surveys of income far understate the amount of pension income going to retired Americans."[24]

In their 1988 book *The Great U-Turn*, Bennett Harrison and Barry Bluestone described the polarization of income and wealth in the United States, but in the course of it they rightly pointed to a vast offsetting factor: that even with the Reagan cutbacks in the number of federal transfer programs, "the total level of federal transfer payments to persons has doubled since 1979, while state and local government assistance has expanded by nearly 90 percent," all for an annual total of more than half a trillion dollars in 1987.[25] Rubenstein cites a study in 1988 showing that the poor manage to spend twice as much as the total of their apparent income. How is this possible? Because "many in-kind government transfers (such as Food

[24] *Business Week*, July 17, 1995, p. 26.

[25] Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarizing of America* (New York: Basic Books, Inc., Publishers, 1988), p. 129.

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Stamps) are not counted as 'money income.'"[26] Data that don't include transfer payments of all types – and this should include payments to the middle class and rich as well as to the poor – just don't convey the whole story.

The absence of unreported income also skews the results. Even though his book on the urban poor is sympathetic, William Wilson cites a study of how welfare mothers have supplemented "their monthly AFDC checks" by money from piecework and other jobs, and from boyfriends. The study says little of this is reported.[27] Rubenstein tells us that Census surveys show that "a fourth of the cash income from welfare and pensions is unreported."[28] And of course such income does not show up in income statistics. Whether it should (even if it could) depends upon the purpose for which we seek the statistics: we will want even criminally-acquired income included if our purpose is to evaluate the actual means that people have; we won't want it included if we desire to assess, say, what comparative incomes would amount to from legitimate sources.

Incomes don't convey the entire picture if a reason for them is that people are working either more or less

Frederick Strobel says family income statistics shouldn't be taken at face value when "longer hours worked by more members of the family" have been required to earn the money.[29]

Effect of family size and type on income statistics

Hinderaker and Johnson point out that the number of adults in the average American family has been declining since the 1970s, due to several factors that include the high divorce rate. They say this causes an understatement of the increase in real (i.e., adjusted-for-inflation) income, since a household with fewer adults simply isn't comparable in earnings comparisons to one with more adults. If individual income were used rather than household income, a more favorable picture would emerge. In addition, they criticize the CBO's

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[26] Rubenstein, *The Right Data*, pp. 212-3.

[27] William Julius Wilson, *When Work Disappears: The World of the New Urban Poor* (New York: Alfred A. Knopf, 1997), pp. 81-2.

[28] Rubenstein, *The Right Data*, p. 213.

[29] Strobel, *Upward Dreams, Downward Mobility*, p. 51.

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lumping of "unrelated individuals" [i.e., single people] into the category of "families."[30]

Rubenstein observes that household income comparisons are skewed by the fact that there are now many more households headed by women, often not working but without a husband, than there used to be.[31] Thus, comparisons are an "apples-and-oranges" proposition.

Given the nature of all this, it can't be surprising that Harrison and Bluestone make an observation that points the other direction. Since World War II in the United States, things have changed drastically about how many adults are employed per household. The norm at one time was that only the husband earned an income; now, many wives bring in earnings. The result is that "the wages of every single worker in the economy could decline and family income could still rise," which is what Harrison and Bluestone say has happened in many families.[32]

Effect of weakness of income-survey data

Karl Zinsmeister in *American Enterprise* speaks of the unreliability of statistics based on surveys: they "are only as accurate as the answers given to surveyers [sic] who knock on people's doors or call on the phone."[33] A weak reed, indeed.

Problems with both averages and medians

Kevin Phillips points out that a serious problem with citing an *average* for incomes, so far as showing the well-being of most people is concerned, is that the average is skewed upward by large income increases at the top.[34] Wallace Peterson says this criticism applies especially to averages about the 1980s, "when the income of families in the top tenth of the population grew many times faster than the income of all other families."[35] A *median* [the figure at which half the population is above the figure and half below it] is more

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[30] John H. Hinderaker and Scott W. Johnson, "Wage Wars," *National Review*, April 22, 1996, p. 34, 35.

[31] Rubenstein, *The Right Data*, p. 214.

[32] Harrison and Bluestone, *The Great U-Turn*, p. 128.

[33] Karl Zinsmeister, "Payday Mayday," *American Enterprise*, September/October 1995.

[34] Kevin Phillips, *Boiling Point* (New York: Random House, 1993), pp. 29-30.

[35] Wallace C. Peterson, *Silent Depression: The Fate of the American Dream* (New York: W. W. Norton & Company, 1994), p. 45.

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descriptive than an average in cases where the distribution isn't bell-shaped. Nevertheless, median-income figures are only as good as the issues of inclusion, exclusion and adjustment we have mentioned (and others that have escaped mention here) allow them to be.[36]

Much of the difficulty we have noted thus far has had to do with *household* income comparisons. If the focus is shifted, though, to *per capita* comparisons, some of the same problems remain and new problems enter. Among the former, the problem about averages, if they are used, applies.[37] Ravi Batra points to a new problem when he says that a woman's work while a full-time homemaker hasn't been counted in the data at all, whereas when she takes an outside job the earnings show up as income. The result is that per capita income is shown to leap upward, when in fact "the rise does not necessarily reflect rising prosperity."[38] Wallace Peterson adds that, to know what's happening, it is necessary to look at the *rate* of increase in a figure like per capita income, and not just at whether there has been an increase.[39] Kevin Phillips observes that a worker's increased expenses (such as of a woman who is working and incurs child care costs) aren't deducted as offsets to the income.[40]

Figures about "the top 1 percent"

Those who stress the growing economic polarity within the United States often talk about the wealth and earnings of the top one percent. Rubenstein makes us aware, however, that "the Census Bureau keeps track only of the top 5 percent," so that "nobody knows exactly how much income is needed to be counted among the top 1 percent."[41] The fact that there are indeterminancies doesn't necessarily invalidate discussions of the top 1%, but a reader needs to know they are there.

Suggestions to improve measures of income

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[36] See Phillips, *Boiling Point*, p. 101, where he reiterates several of these objections.

[37] Phillips, *Boiling Point*, p. 101.

[38] Ravi Batra, *The Myth of Free Trade: The Pooring of America* (New York: Touchstone, 1993), p. 24.

[39] Peterson, *Silent Depression*, p. 44.

[40] Phillips, *Boiling Point*, p. 101.

[41] Rubenstein, *The Right Data*, p. 210.

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We have already seen the suggestion that it would be better to take objective measures of well-being – such as the average number of cars Americans drive, television sets they own, life expectancy, etc. – than to tip-toe through the minefield of income statistics. I am reminded, though, of my son, who in his late twenties quite deliberately lives a life with few amenities and low earnings, while enjoying backpacking and playing a musical instrument. A counting of "objective measures" won't give the picture unless a value is placed on leisure. How does one do that? Probably the answer is that no single measure should be relied upon by itself, but rather an array of measures of different kinds. To this it will be worthwhile to add a recommendation for a fair modicum of intellectual humility, acknowledging that in many ways reality is too complex and transitory to be measured more than approximately.

Some authors urge that income averages and medians should be understood largely through the prism of "income mobility." Thus, Rubenstein about the common practice of describing the population by "income quintiles": "Income mobility is a far better indicator," because non-recurring tragedies or windfalls often put people or families in earning quintiles that are not typical of them.[42] An individual tends to move from low-income to high-income and then back to low-income again as he moves through the phases of life, with the result that a placement of him in a certain quintile at any given time almost totally misrepresents his economic well-being.

This suggests that a use of "comparables" might often help, just as it does in real estate appraisal. How, say, do 25-year-old male college graduates (but with no graduate education) in a given year compare with others just like themselves from twenty years before? Karl Zinsmeister, accordingly, has argued that it is necessary to "match equivalent households" rather than talk in terms of medians or averages; "you must be sure you are looking at the same kind of family."[43] This is not to say that "comparables" don't pose problems, especially when values and conditions change over time.

National Income Data: Gross National Product (GNP) and Gross

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[42] Rubenstein, *The Right Data*, p. 149.

[43] Zinsmeister, in *American Enterprise*, September/October 1995.

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Domestic Product (GDP)

National-income data are of relatively recent origin. The U.S. Department of Commerce began publishing them in 1942, and Daniel Bell tells us that "the concept of GNP was first broached by Franklin D. Roosevelt in his budget message in 1944."[44]

These statistical categories involve an adding-together of all monetary transactions. The advantage is that those are the transactions most easily counted, but Fred Block says anyone is wide of the mark who puts GNP/GDP forward as a way of "trying to track all of the utility that society produces."[45] In what follows, we will critique national income data as an indicator of well-being, which is the way they are often used. This use is distinguishable from any more limited purposes to which economists might put them. We will see that the concept was flawed from the beginning, but it is worth noting that Block says the gap continues to grow "between what the GNP data report and the actual output of the economy." People are "actually much better off than the GNP data indicate."[46]

A good place to start is with the oddity that the statistics count only monetary transactions, although there is also some "imputing of income," such as to homeowners for the benefit they receive from their residences.[47] In the first place, the aggregation of all monetary transactions is inclusive of too much. Daniel Bell says "it does not discriminate between a genuine addition to welfare and what, in effect, may be a subtraction." He gives the example of a steel mill. Its output of steel is counted, but so also is the money that is spent cleaning up a lake if it pollutes one. Both go into the total because they involve monetary expenditure.[48] Sir James Goldsmith illustrates the same point by pointing to a hurricane, earthquake or epidemic.[49] All cause the spending of money, but society will usually be less well off than it was before. And, Goldsmith says, the value of

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[44] Daniel Bell, *The Coming of Post-Industrial Society* (New York: Basic Books, Inc., Publishers, 1973), p. 332.

[45] Fred Block, *Postindustrial Possibilities: A Critique of Economic Discourse* (Berkeley: University of California Press, 1990), p. 176.

[46] Block, *Postindustrial Possibilities*, p. 178.

[47] Wriston, *The Twilight of Sovereignty*, p. 95.

[48] Daniel Bell, *The Coming...*, p. 280-1.

[49] Sir James Goldsmith, *The Trap* (New York: Carroll & Graf Publishers, Inc., no year given), pp. 14-15.

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a product may be counted several times as it passes through middlemen to the ultimate consumer.[50]

It is at the same time commonplace to point out that there are many value-producing activities that monetary transactions don't include. Two that are often cited are house-work and home-making.[51] Nobel laureate economist Gary Becker says that "when a family hires someone to care for the children, clean the house, and cook, that work is counted...When a parent does it, it is not."[52] This is why John Maynard Keynes once observed that "a man who marries his housekeeper diminishes total GNP."[53] Fred Block points to several other things that are uncounted but that are important to well-being: environmental quality, life expectancy, the value of leisure, nonpecuniary rewards individuals derive from work (or, we might add, from anything else), economic security, and the value of services as distinct from their dollar cost.[54] There is also an "underground economy" of unreported expenditures, such as in the drug trade and even some activities that are more legitimate in themselves but as to which the parties don't want the transactions known for tax or other purposes.

Then there are conceptual insufficiencies. Economist William Allen observes that "from 1979 to 1980, GNP went up almost 9 percent. That sounds great. But prices went up close to 10 percent." He warns that "in dealing with GNP, watch out for inflation." Also, it is well to keep changes in population in mind: "If real output goes up 15 percent over a period while the number of people increases by 20 percent, output per person falls." Income distribution is also something to consider: "Several oil-producing countries experienced huge increases in GNP during the 1970s, but 95 percent of the residents did not gain."[55]

Allen further discusses the problem of qualitative change in goods. This is the phenomenon of "capital savings." Two computer-

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[50] Goldsmith, *The Trap*, p. 16.

[51] William Allen, *The Midnight Economist*, Third Edition (Sun Lakes, AZ: Thomas Horton and Daughters, 1997), p. 193.

[52] Gary S. Becker, "Housework: The Missing Piece of the Economic Pie," *Business Week*, October 16, 1995, p. 30.

[53] Cited in Block, *Postindustrial Possibilities*, p. 159.

[54] See Block's extended discussion of these in *Postindustrial Possibilities*, pp. 156-173.

[55] Allen, *Midnight Economist*, Third edition, pp. 191, 192.

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purchase transactions involving the expenditure of $2,500 in 1982 and 1997, respectively, would have the same dollar amount so far as being counted in GNP/GDP, but the purchaser received much more for the money in 1997 than in 1982 because of the vast increase in computer power, which made the two computers hardly comparable. Block says that "if technological advances are making possible significant capital savings, the dollar value of business and government purchases of capital goods will understate the total utility being produced in a given year."[56]

Ravi Batra mentions the need for reductions. Tangible durable goods deteriorate constantly (such as when a building or other property depreciates), but this isn't reflected as a reduction in GNP/GDP. In fact, when money is spent on their replacement or renovation, that adds to GNP. His point is actually broader than a simple reference to tangibles; he refers to such things as "the homeless millions, urban blight, crumbling roads and bridges, declining test scores, unaffordable homes, desolate factory towns and parking lots."[57] It is even possible, as Goldsmith notes, for GNP and unemployment to rise simultaneously: "In France over the past twenty years GNP has grown by 80 percent...[while] unemployment has grown from 420,000 to 5.1 million...."[58]

Wriston raises another conceptual difficulty when he criticizes the selectivity of "imputing" income to homeowners but not doing so to owners of other durable assets such as cars and dishwashers.[59]

With all these things in mind (and they are just part of what could be mentioned), it is necessary to ask how much real information one receives the next time he reads a report giving national-income statistics.

Unemployment Statistics

Data for employment and unemployment are frequently reported in the press and are heavily relied upon in economic discussions as indicators of national well-being. At the annual Federal Reserve symposium at Jackson Hole in 1994, economist John

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[56] Block, *Postindustrial Possibilities*, p. 168.
[57] Batra, *The Myth of Free Trade*, p. 23.
[58] Goldsmith, *The Trap*, p. 18.
[59] Wriston, *Twilight*, p. 95.

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P. Martin said, however, that "there are long-running debates in many countries as to the adequacy of [the] conventional measures of unemployment."[60]

It is commonly said that the United States opts for flexible wages, and hence for low unemployment, while European countries insist on inflexibly high wages and underwrite them with the welfare state, the result of which is high unemployment and "Eurosclerosis." So variable is the perception of facts about unemployment, however, that MIT economist Lester Thurow "puts the real unemployment rate [in the United States] at over 14%, or higher than European levels."[61] Here is the detail Thurow gives in an interview with *Technology Review*: "The United States nominally has one of the lowest rates of unemployment in the industrialized world because we don't count a lot of people as unemployed." There are five or six million people, he says, "who say they want to work but who don't meet any of the technical criteria for being unemployed, such as that they visited a potential employer in the previous week. We've also got about 4 and a half million people who work part time but want to work full time, and we've got 8 million people who are temporary workers. We have another million people who are self-employed 'consultants,' many of them professionals affected by downsizing...who would be glad to take a regular job...And then we have, between the ages of 20 and 60, 6 million missing men...they're dropouts."[62]

Kevin Phillips agrees, pointing to differences in what is included and not included in Europe and the United States. "In contrast to many European countries, the United States in compiling jobless data excluded persons without employment who had stopped looking for work, while part-time workers who wanted full-time jobs were nevertheless counted as entirely employed."[63] Aaron Bernstein in *Business Week* adds that "our current low unemployment rate [in

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[60] John P. Martin, "The Extent of High Unemployment in OECD Countries," *Federal Reserve Symposium Series*, 1994, p. 11.

[61] Cited in Robert Kuttner, "Soaring Stocks: Are Only the Rich Getting Richer," *Business Week*, April 22, 1996, p. 28.

[62] Interview with Lester Thurow, "Building a Better Economy," *Technology Review*, May/June 1996, p. 42.

[63] Phillips, *Boiling Point*, p. 98.

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the United States] masks an economy full of workers hungry for better jobs."[64] It should be noted at the same time that Sir James Goldsmith argues that French statistics have similar problems; they omit, he says, 1.8 million people who should be counted as unemployed.[65]

Wallace Peterson makes the point that "unemployed" should have added to it the number of people who do have jobs but who are below the "poverty line." In 1990 this was 14.4 million people. If they were added to create a truer picture of where the United States is in terms of human well-being, the rate would be 16 percent.[66] Of course, even though this seems a valid enough point, a political and non-scientific element would be introduced that could greatly affect this statistic: the decision about where the "poverty line" is to be drawn.

On the other hand, some things are omitted that, if added, would point the other direction, making conditions appear more favorable by boosting employment and lowering unemployment. John P. Martin mentions "the proportion of the unemployed who are engaged in concealed employment."[67] William Allen refers to "the bloating of both the labor force and the number of unemployed by those who pretend to want a job but actually will not accept work."[68]

Some conceptual matters pertain. For example, in any given recovery there may be an apparently favorable unemployment rate, but a look at the *rate of improvement* might show it to be higher or lower than in other recoveries.[69] Pointing to another factor, Frederick Strobel says that "the economics profession has...by and large accepted uncritically a low unemployment rate as an indicator of economic well-being," to which he adds that "the unemployment rate says very little about the distribution of income between capital and

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[64] Aaron Bernstein, "This Job Market Still Has Plenty of Slack," *Business Week*, June 24, 1996, p. 36.

[65] Goldsmith, *The Trap*, p. 18.

[66] Peterson, *Silent Depression*, pp. 155-6.

[67] Martin, *Federal Reserve Symposium Series*, 1994, p. 35.

[68] Allen, *Midnight Economist*, Third Edition, pp. 224-5.

[69] Along these lines, Aaron Bernstein observed in *Business Week*, July 11, 1994, p. 95, that the recovery to that point in the first half of the 1990s was "25 percent slower than in prior recoveries."

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labor, or about the quality of jobs."[70]

The National Debt and the Annual Fiscal Deficit

We have already seen the statement by former Senator Hank Brown and former governor Richard Lamm to the effect that the national debt figures leave out vast legally-committed-to liabilities. Similarly, Ross Perot said in 1993 that "the official figure has us $4 trillion in debt, but...the total obligations of the United States government are actually around $15 trillion...We have a total of $15 trillion guaranteed by the United States taxpayers. These guarantees cover banks, savings and loans, pension funds, home mortgages, and more."[71]

A related point applies to the annual federal budget deficit (or surplus, if one really emerges). Michael Boskin, the chairman of the Council of Economic Advisors under President Bush, wrote in 1989 that "a very large amount of government spending occurs off-budget."[72] He called for revamping the accounting system used by the federal government. "The fact is that congressmen today are receiving irrelevant and inaccurate information about everything, from the level and growth of federal spending to the nature of costs in the various programs."[73]

It reinforces the main theme of this discussion to observe that other factors can make the picture look entirely different. Wallace Peterson tells of the 1985 book on the deficit by Robert Eisner of Northwestern University. It warned of improper measurement that leads to overstatement. What is needed is "correcting for inflation, eliminating deposit-insurance transactions from the calculations of the deficit because they don't reflect current income and production, deducting estimated federal outlays for nonmilitary capital, and offsetting the federal deficit by the combined budget surplus of state and local governments."[74]

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[70] Strobel, *Upward Dreams, Downward Mobility*, p. 81.

[71] Ross Perot, *Not for Sale at Any Price: How We Can Save America for Our Children* (New York: Hyperion, 1993), p. 22.

[72] Michael J. Boskin, *Reagan and the Economy: The Successes, Failures and Unfinished Agenda* (San Francisco: ICS Press, 1989), p. 116.

[73] Boskin, *Reagan and the Economy*, p. 132.

[74] Peterson, *Silent Depression*, pp. 211-212.

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Walter Wriston in 1992 criticized what he sees as the aberrational accounting system used in federal government budgeting. "Since 1969, the U.S. government has used a unified cash-based budget that does not produce results congruent with generally accepted accounting principles." He points to the failure to include any capital accounts. Even such a thing as a multi-billion dollar road system is "expensed." If it were a bookkeeping system used in the private sector, he said, its user might well be taken to court for fraud.[75]

It is well to remember as we review these statistical categories a point we made earlier: that some of the problem comes from the data's being generated and used in a hotly disputed political and ideological context. Paul Krugman says, for example, that the deficit figure of $123 billion for 1990 "is partly a fraud, thanks to the desperate accounting expedients used to postpone the Gramm-Rudman [deficit reduction] targets; the true deficit was more like $150 billion."[76] Speaking of the long-term budget projections that feature so prominently in the "budget deals" between the Congress and the President, Rob Norton in *Fortune* says that they "are almost entirely worthless. For one thing, they depend crucially on economic forecasts, and economists can't always predict what the economy will do next week, let alone next decade."[77]

Balance of Trade Statistics

Robert Reich describes the almost total bankruptcy of trade statistics as they now stand. He says they are "notoriously imprecise, subject to wide swings and seemingly inexplicable corrections. The truth is that these days no one knows exactly, at any given time, whether America's (or any other nation's) international trade is in or out of balance, by how much...."[78] Wriston agrees: "The current trade accounting system is totally inadequate." He gives an example in which an American author sends a manuscript to Taiwan, where the book is manufactured and sent to the United States for sale, resulting in royalties to the author. "So far as the balance-of-trade

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[75] Wriston, *The Twilight of Sovereignty*, p. 95.
[76] Krugman, *The Age of Diminished Expectations*, p. 96.
[77] Rob Norton, "Washington's Useless Forecasts," *Fortune*, January 15, 1996, p. 27.
[78] Reich, *The Work of Nations*, p. 114.

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figures are concerned, Taiwan runs a trade surplus...[even though] the lion's share of the return on this capital is generated in the United States."[79]

Much international trade occurs among companies and their foreign subsidiaries, contrary to the traditional pattern. Alfred Balk points to the massive artificialities this introduces: he says that when U.S. corporations sell abroad through their subsidiaries and affiliates there, which is today more and more frequently the way sales are made, "their sales do not count as U.S. exports." If they were counted, Balk argues, a 1985 trade deficit of $148.5 billion would have been transformed into a trade surplus of $151.4 billion – a swing of $300 billion! Cutting the other way, when foreign-owned factories in the United States send goods abroad, those shipments do count as "American exports." On the import side, if U.S. firms' foreign subsidiaries sell goods in the U.S. market, such sales count as "imports," making up as much as 60 percent of the trade shortfall.[80]

A 1994 article in *Business Week* says government economists believe American exports are undervalued by 10 percent or more. A major reason is that "computer software, an industry dominated by U.S. producers, barely shows up...The government calculates only the value of instruction manuals and the blank disks...The value of the software itself simply disappears."[81] More than perhaps anything else, this illustrates how archaic the statistical measures are in a world of fast-changing technology.

In baseball, whenever a player comes close to topping the homerun records set by Babe Ruth and Roger Maris, questions of comparability come in. Are the fences the same distance from home plate today? Is the ball more or less lively? How do the seasons compare in number of games played? Similar issues are important in comparing economic statistics over time. For example, in 1989 the United States instituted a new accounting system for imports, no longer counting the cost of insurance and shipping as had been done

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[79] Wriston, *The Twilight of Sovereignty*, pp. 81-2.

[80] Alfred Balk, *The Myth of American Eclipse* (New Brunswick: Transaction Publishers, 1990), pp. 51-4.

[81] *Business Week*, July 18, 1994, p. 40.

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before.[82] If the measures change, as in countless ways they must if they are not to remain archaic, what is then to be made of over-time comparisons of something like the "trade deficit"?

National Trade Debt

It is often said that overnight the United States has gone from being the world's largest creditor nation to the world's largest debtor. But two authors in a recent book say "the figures usually quoted to support this assertion are seriously flawed." Americans own vast overseas investments, but for accounting purposes these are valued at "historic cost" rather than current market value.[83]

This raises a serious question about accounting measures such as "historic cost" that were appropriate to an age of slow technological change, localized markets, and low inflation, but that lead to gross distortions today and portend even greater distortions in the future.

Productivity

It has been commonplace in the 1990s to complain that "productivity" is surprisingly stagnant. Perhaps most prominent among those who have puzzled over this is Robert Solow, the Nobel Prize-winning economist who originated the "Solow paradox." The paradox was that the service sector seemed to become only slightly more productive despite huge expenditures on investment.[84]

The literature contains, however, many powerful statements about how productivity statistics leave out much of the vastly significant value-creation that is occurring in an information-centered economy. Andy Kessler in *Forbes ASAP* tells how R. J. Reynolds Tobacco Company has realized major savings from electronic data interchange (EDI): "Purchase orders that previously cost between $75 and $125 to process now cost 93 cents."[85] When such a productivity increase doesn't impact on the statistics, it drives one economist at

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[82] Oliver Trager, editor, *Can America Compete?* (New York: Facts on File, no year given), p. 20.

[83] Anthony Patrick O'Brien and Robert J. Thornton, "How Serious Is the U.S. Competitiveness Problem," in Steven L. Goldman, editor, *Competitiveness and American Society* (Bethlehem: Lehigh University Press, 1993), p. 61.

[84] Article, "A World Without Jobs?," *Economist*, February 11, 1995.

[85] Andy Kessler, "Fire Your Purchasing Managers," *Forbes ASAP*.

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the University of Michigan to label the productivity statistics "a horror show," and to add that "they're widely regarded as the worst kind of numbers that have ever existed." *Business Week*, after quoting him, adds that "the government has no good way of measuring output in a whole range of industries, including banking, software, legal services, wholesale trade, and communications – all of which have invested heavily in information technology."[86]

This unmeasurability arises largely from the nature of the value being produced. *The Economist*, citing Harvard economist Zvi Griliches, says that "in many services it is hard even to define the unit of output, partly because higher output often comes in the form of quality improvements." It says that output in telecommunications is calculated in "minutes of calls." This gives no indication of the vastly increased productivity that comes from ever-quicker modems and fax machines. Another example: In haulage, the measure is "miles driven." If computerization makes it possible for a trucking firm to choose more efficient routes, the decrease in mileage "will show a fall in real output" so far as the statistics are concerned.[87]

In light of these things, it seems ludicrous that "the slowdown in American productivity" can be rated as "the single most important fact about our economy" by so prominent an economist as Paul Krugman in a 1994 book. There has been considerable puzzlement over why productivity has slowed [as though it has]. At first, the energy crisis was blamed. "Conservative economists predictably," Krugman says, "place the blame on increased government regulation...." "So we really don't know why productivity growth ground to a near halt."[88] All of this illustrates how strong a grip the now-outmoded statistical categories have in persuading even the most serious observers of things that just may not be so.

Capital Accounting

In a *Business Week* column entitled "Why the Numbers Miss the Point," Christopher Farrell in 1995 said that "new products, new ideas, and new technologies are transforming the economy in ways

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[86] *Business Week*, November 7, 1994, pp. 113-116.

[87] *The Economist*, "The World Economic Survey," September 28, 1996, unnumbered pages.

[88] Krugman, *The Age of Diminished Expectations*, pp. 17-20.

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the statistics aren't capturing." He adds, "the government's numbers miss a big chunk of high-tech investment. For example, business purchases of software aren't included under investment (except for software sold with computer hardware). Instead, they're treated like pencils and paper clips." This, despite the fact that "corporate purchases of package software rose from $7.4 billion in 1983 to $51 billion in 1994...."[89] From $7.4 billion to $51 billion and not counted!

Fred Block tells us that the "traditional forms of capital accounting are increasingly problematic...." Output may come as much or more from improved organizational processes as from capital inputs; there is a question about whether spending on intangibles, such as for research or training [which enhances "human capital"], should be included among capital expenditures; and, he says, various adjustments need to be considered when "assessing the value of older capital relative to newer capital in light of technological advances."

He defines "capital savings" as occurring when "a more effective machine is available without a commensurate increase in price." An example he cites: that "a Xerox desktop machine introduced in 1983 was three times faster and one-seventh the size of the first generation of Xerox machines introduced in 1959 and the 1983 machine sold at a much lower price." Block says that the occurrence of significant capital savings will create serious statistical anomalies. All of this "makes the official data on capital investment highly suspect."[90] Capital saving has especially been happening in computerization; in 1994, *Business Week* reported that "the price of information-technology equipment has dropped by 23 percent over the past five years."[91]

Savings

Michael Boskin speaks of "problems with the traditional manner of gathering saving statistics." They don't include, he says, capital gains and losses. This has led to an understatement of savings in the 1970s, when massive capital gains in housing were not counted;

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[89] Christopher Farrell, "Why the Numbers Miss the Point," *Business Week*, July 31, 1995, p. 78.

[90] Block, *Postindustrial Possibilities*, pp. 120-1, 129, 132, 135, 140-1, 145.

[91] *Business Week*, "The Information Revolution 1994," p. 27.

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and in the 1980s [to which we can add the 1990s] when the increase in stock market values "has left people with substantial capital gains."[92] Similarly, economist David Bradford at Princeton University calls the savings rate "terribly unreliable."[93]

"Skills"

John P. Martin told the 1994 Federal Reserve symposium at Jackson Hole that the "international comparisons of unemployment by skill levels are very difficult to make with existing data sources. The concept of 'skills' is a multidimensional one, for which there are no agreed international definitions."[94]

"The Homeless"

Edwin Rubenstein reported in 1990 how the American public had been told for years that there were three million homeless people in the United States. "Yet every systematic survey of homelessness since 1984 has put the figure at between 250,000 and 600,000, with the average at about 400,000." The media also vastly understated, he says, the percentages of homeless people who had serious drug or alcohol addiction.[95]

The Consumer Price Index

The CPI is a key statistical tool because other statistics need to be adjusted for inflation if they are to be compared over time. (Beware any comparisons that don't indicate an adjustment.) A problem with the CPI will impact upon almost everything else. An overstatement of inflation will, for example, cause an understatement of productivity and wage growth.

In the mid-1990s, there is a consensus in much of the literature that the CPI has overstated inflation. In late September 1996 *The Economist* reported that "a study by Leonard Nakamura, an economist at the Federal Reserve Bank of Philadelphia, estimates that America's inflation rate has been overstated by an average of two to three percentage points a year since 1974, mainly because new

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[92] Boskin, *Reagan and the Economy*, p. 153.
[93] Bradford is quoted in *Business Week*, November 7, 1994, p. 116.
[94] Martin, *1994 Federal Reserve symposium*, p. 24.
[95] Rubenstein, *The Right Data*, pp. 136-7.

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products or product improvements have been neglected."[96]

In December 1996 a commission chaired by Michael Boskin found a "1.1 percentage point upward bias in the CPI." One reason for this was said to be that because the CPI makes its calculations based on a fixed market-basket of products, it doesn't consider the effect of consumers' substituting other products when they are dissatisfied with the price of something. Nor does the CPI consider the lower-than-otherwise prices available in discount stores. The biggest discrepancy was thought to come from the CPI's not taking into account the quality improvements occurring in the economy.[97] If you pay slightly more for something, but get twice the value for the money, the higher nominal price shows up as inflation even though the real price has gone down.

The extent to which the CPI's "basket of products" can become dated was commented upon by Howard Gleckman in *Business Week* in 1994 when he said that "the CPI still assumes...that personal computers represent less than 1% of household purchases – too low now."[98]

Again in this context, however, there is a dispute in which diametric opposites are stated. The economists at the Austrian school of economics' highly respected Ludwig von Mises Institute see the view we have just recounted, "that the CPI overstates inflation," as a "scam." In their opinion, the view is "the establishment line" and is motivated by a desire to boost taxes by causing tax rates, now indexed to inflation, to be adjusted less than they otherwise would be.[99]

School Test Comparisons

We are expanding outside economic statistics when we include this category, but it is worth noting yet another set of figures illustrating a sampling error, "comparing apples and oranges." The

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[96] Quoted in *The Economist*, "Survey of the World Economy," September 28, 1996, pages not numbered.

[97] Associated Press report of the commission's findings in the *Wichita Eagle*, December 6, 1996.

[98] Howard Gleckman, "Uncle Sam's Stats: Call Them Unreliable," *Business Week*, July 18, 1994, p. 40.

[99] *News from the Ludwig von Mises Institute*, Summer 1997, p. 4.

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press often reports test comparisons of American students with students of other countries. The American students ordinarily appear relatively mediocre. David D. Thornburg has pointed out, however, that "some of the test results comparing our students with those of other nations compare all our children against only the best and brightest of the other countries. That's like pitting a community touch football team against the San Francisco 49er's."[100]

The Number of Robots

In a 1983 book on robotics, we were told that "complete data on current installations of robots in the U.S. are not available. In part, that can be accounted for by confusion in defining exactly what constitutes a robot."[101]

Telling Manufactured Products from Services

At one time it was easy to tell the difference between a manufactured product, being tangible, and services. But *The Economist* observes that "intangible products wreak havoc with the old statistical boundaries between manufacturing and services." It points out that much of the value of a "manufactured" item comes from such services as design, sales and advertising. Moreover, manufactured products are becoming more customer-service oriented, with many things being patterned to serve specific customers.[102]

Conclusion

We could continue to show similar problems with still other economic statistical categories: the index of leading economic indicators; data on investment decisions in the service sector; the capacity utilization index; the extent of foreign direct investment; the per-job cost of barring imports; the length of the average work week. Virtually every classification is thought by someone among the experts to be faulty in its portrayal of what it seeks to describe.

This robs much of today's discussion of economic issues of an

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[100] David D. Thornburg, *Edutrends 2010: Restructuring, Technology, and the Future of Education* (No city given: Starsong Publications, 1992), p. 20.

[101] H. Allan Hunt and Timothy L. Hunt, *Human Resource Implications of Robotics* (Kalamazoo: W. E. Upjohn Institute for Employment Research, 1983), p. 7.

[102] *The Economist*, "The World Economic Survey," September 28, 1996, no pagination.

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assured evidentiary foundation. Fortunately, certain facts and trends are stipulated to among those who deal in such issues. To this we can add that theory undergirds those same facts and trends. Fortunately, the result is that the "house of cards" we have described here isn't so utterly shaky that social analysts are bereft of a basis upon which to proceed.

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BOOK REVIEW ARTICLE

Key Issues in America

Edward M. Miller
University of New Orleans

Where America Stands
Michael Golay
John Wiley, 1997

Where America Stands summarizes the results of recent Gallup polls of a wide range of different issues, and offers a background commentary on each. It provides many fascinating facts, both about the issues discussed and what Americans think of the issues. Large print is used. Charts, marginal quotations, and boxed discussions of special topics are spaced throughout the text. The result is a very readable book.

Let us look at some of the issues discussed, and what Americans think of them.

Welfare Reform

The U.S. Congress has recently revised the U.S. welfare system. Continuous welfare will be limited to two years for most people (women with children under six are protected from losing benefits if suitable child care is not available). This reform followed a gradual public loss of confidence in the welfare system. In 1972 three quarters favored increasing or maintaining existing levels of welfare spending. By 1994, only 48% thought spending should remain constant or increase. By 1994, 90% of the American public believed the welfare system to be in crisis. In 1996, nearly three quarters of the sample (71%) favored a cut-off of benefits after two years, and a majority favored denying welfare benefits to new immigrants. However, three quarters of the public said the children of recipients dropped from the rolls should continue receiving benefits. (Of course, it is very hard to give benefits to children without the parents also benefiting).

There was overwhelming public support for job training with over 90% in a 1994 survey supporting "job training programs that teach

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welfare recipients new skills, and for child-care subsidies for working welfare parents or for welfare parents who are looking for work."

Congress responded to the public concerns with a new program that limited welfare over recipient's lifetime to five years (with hardship exemptions for up to 20% of the case load), and required able bodied adults to work after two years. It replaced the old federally mandated system by one of block grants to states, with the states having freedom to craft their own programs within broad limits. The program changes were projected to greatly reduce Federal expenditures.

A cynic could note that many of the savings depended on sticking to the five year lifetime benefit limit (and the two year limit on benefits without work). These limits might be hard politically to hold to once many individuals had come up against them. In the absence of suitable jobs many of these recipients will be without income, and possibly on the street (most likely, though, getting help and a place to stay from relatives and friends).

The book mentions calculations that show welfare to be more attractive than working for those single parents who could not earn more than twice the then minimum wage of $4.25 per hour (now higher). I suspect the underlying theory behind the new plan seemed to be that most welfare recipients could do useful work if they were only forced to take it, or to train for it. At the individual level this may be true, since there are minimum wage jobs in the economy. However, at the economy wide level it is not clear there are that many low level jobs available.

Typical of this thinking is an estimate by Senator Roth that over a five year period the typical recipient receives benefits equal in value to $50,000, enough "to finish a high school degree or to learn a skill through vocational training". Roth fails to consider the possibility that many welfare recipients' low intelligence may prevent them from either finishing high school or learning a marketable skill.

Interestingly, the welfare reform program appears in many ways to accept a critique of welfare made by conservative scholar Charles Murray (*Losing Ground: American Social Policy, 1950-1984*, Basic Books, 1994) which emphasized its perverse incentives. Meanwhile however, Murray went on to complete, with the late Harvard psychologist Herrnstein (1994), another book, *The Bell Curve* (Herrnstein, R. and Murray, C. The Free Press, 1994) which

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emphasizes the intellectual limitations of those on welfare. If many of those on welfare are of low IQ, as is documented there, job training and high school training are unlikely to leave them equipped for other than the most low paying jobs.

There is no obvious mechanism to expand the number of low paying jobs. In economic theory, an increased supply of low skill labor (due to some welfare recipients being forced to seek work) would lower the wages for those with minimum intelligence and skills. However, at roughly the same time as Congress was reforming welfare to force the low-skilled off the dole, it was also raising the minimum wage from $4.25.

Some temporary relief will be provided because many on welfare will be forced into job training or other education programs rather than directly into the pool of the job seekers, but once those on welfare have done their time in training programs, it is not clear where suitable jobs will come from. *The Bell Curve*'s evidence for their low basic intellectual ability suggests they simply will not acquire high level skills even if put through training.

Incidentally, the basic vision of those on welfare that lies behind the welfare reform bill appears to be that recipients are too lazy to work or to train themselves for work as long as welfare at a minimum income level is available. In view of this vision, the view of *The Bell Curve* that many lack the intellectual ability for the existing jobs, or the ability to easily complete training programs, appears much more sympathetic to welfare recipients.

Merely having recipients remain in school for long enough to qualify for a high school diploma will not change their employability unless they actually learn the skills required to do more difficult jobs. The evidence is that they will not. The various programs that teach interviewing or job hunting skills may help a few get jobs, but these do not increase the total number of jobs and probably do not add appreciably to the number low skilled individuals with jobs. Indeed, if candidates are coached on how to look smart rather than being really made smarter, such programs may make it harder to discover which applicants are really capable of doing the job.

Much of the welfare debate seems to suffer from what in elementary economics is called the fallacy of composition, i.e. that what is true for the individual is true for the group. Many things that make it possible for an individual to get a better job may not help an entire

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group get better jobs. Examples are better interview or job-hunting skills, or a high school diploma (rather than possession of the skills such a diploma used to signify).

Publicly funded jobs are one obvious possibility. A section of this chapter is devoted to them, and state experiments with them. In one survey, 60% of the public favored such jobs. However, it may be hard to generate the required number of jobs for the unskilled. A Kansas City experiment is described in which "80 women were hired as home aids for the disabled and elderly. After seventeen months, only twenty-five women remained on the job. The trainees lacked skills, missed work frequently, and resisted following their bosses' directions." The possibility that the basic underlying problem may be lack of intelligence is not mentioned.

Welfare reform can create large numbers of jobs in one category, child care. Many of those on welfare have children too young for school. It is clear that some provision for child care is needed for these mothers. This need for child care is one reason why welfare is often more attractive than working (which requires paying for child care), and why welfare reform and putting those on welfare to work can easily be more expensive than merely giving them welfare. The book reports that providing child care for one New York make work program is expected to cost $540 per month for each worker, while a mother of three receives $577 in welfare benefits.

An obvious solution is to put some of the welfare recipients to work doing child care. However, public attitudes (and professional attitudes) about minimum standards for child care imply many of the welfare mothers could not qualify. (Of course, it is possible that a mother who is not motivated to care for others' kids without much expensive supervision and training, may do a minimally adequate job for her own children, tied to her by blood).

There is interesting material on illegitimacy rates in a discussion set off in a box (the book contains many such boxed discussions of interesting side points). Two-thirds of all black births are now to single mothers, with the proportion of births to single mothers rising from 23% in 1960 to 62% in the early 1990's. However, it does note a fact that is little understood, that most (four-fifths in one estimate) of this ratio arises not from single mothers having more children, but from fewer births to married couples.

For those who do not see how this could happen, imagine a time

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when a black teenager became pregnant and then married her boyfriend. They then had four more children. Only one out of the five children would be born to single mothers if this were the typical pattern. Now imagine, birth control becomes more popular and married couples limit themselves to a completed family size of two, with one having been born before marriage. The result is that 50% of births are to single mothers. This is how decreasing family size among married couples can increase the percentage of births attributed to single women.

Of course, if single women who have children (and their boyfriends) are less responsible (or less intelligent) than married women and their husbands, there is a problem here in that the proportion of children born to the less suitable parents (whether for environmental or genetic reasons may not be terribly important in forecasting the results) increases, and these children have a much lower probability of success.

This brings us to one of the topics that the book and Gallup surveys have little to say on: eugenics and public attitudes to it. If welfare recipients and single mothers are typically among the least intelligent, perhaps there should be efforts to discourage the childbearing activities of such parents. There appears little possibility they can provide what are considered acceptable living conditions to their offspring. The book does mention a Florida program that reduces aid levels after the birth of a second child. Whether the women affected will be smart enough and self-restrained enough to respond to this incentive is not known.

The Florida program also ends direct payments for teen mothers, who will now be required to live at home or with a legal guardian. One of the complaints against the traditional welfare system has been that it provided perverse incentives. It often promised a teenager who was restless living at home (and many are), that if she became a mother she would be given enough money to set up her own household. Even if this did not lead directly to a decision to become pregnant, it certainly reduced the incentive to avoid pregnancy.

The new welfare bill does contain a requirement that women who do not cooperate in identifying the fathers of their children will have their benefits cut by a quarter. This is intended partially so that child support can be collected from the fathers. It is also partially in the hope that if the men bear part of the costs of the pregnancies they

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cause they will father fewer offspring. These men are usually a bit older than the mothers, and frequently are already out in the workplace. Indeed, it is often their earnings that make them attractive to the women they seduce. The provision to identify fathers may have some eugenic effects, thereby reducing the strain on welfare.[1]

One of the ways the new welfare program saves money is by excluding non-citizens from food stamps or supplemental security benefits (with exceptions for veterans and those who had worked and paid taxes for at least 10 years). Future legal immigrants were excluded from receiving benefits for their first five years in the country, and illegal immigrants would be excluded from most means-tested benefits (other than emergencies and cases of communicable diseases).

This brings us to the topic of immigration, and current American attitudes to it. Altering how the welfare laws treat immigrants suggests American attitudes to immigration have themselves changed.

Immigration

One of the more interesting chapters deals with immigration. A 1992 poll showed that two thirds of respondents believed that many immigrants ended up on welfare, but only 19% of immigrants in a Gallup Survey acknowledged they had ever taken welfare, food stamps, or Medicaid benefits. Currently, the members of foreign-born households are more likely to be on welfare than persons born in the U.S, with the percentage varying by origin. Only 4% of immigrants from South Africa, Taiwan, or Britain were on welfare, while 12% of Mexicans were. Current law provides for deporting those who become public charges but it is very seldom done. (Only 41 immigrants were sent home as public charges between 1961 and 1982, after which this

[1] For those interested in eugenics, I have published in this journal articles reviewing and summarizing three relevant books. One reviews and summarizes Pearson's *Heredity and Humanity* (Scott-Townsend, 1996). This deals with the history and potential of eugenics. The other (Miller 1997), reviews and summarizes Professor Lynn's *Dysgenics: Genetic Deterioration in Modern Population* (Praeger, 1996). A third review and summary article in this journal (Miller 1996a), summarizes Brand's *The g Factor* (Wiley, 1996), and provides evidence for the importance and heritability of intelligence. Incidentally, Wiley (the publisher of the book being here reviewed) withdrew it from the bookstores, apparently because of the information it contained on racial differences in intelligence.

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information was no longer published).

For certain categories of immigrants, welfare may be more important. One investigation showed that a quarter of the elderly on supplemental security were legal immigrants. Younger immigrants frequently bring over their parents who, lacking other sources of income in the U.S., qualify for welfare.

There appears to be a difference between public opinion, and the views expressed in the media, with its emphasis on the benefits of diversity. While public debate has been on the advisability of a mild reduction in immigration rates, 40% of Americans favor a five-year moratorium on legal immigration to the United States. A 1995 poll found 60% favored reducing the number of immigrants entering the country, while only 7% favored an increase in immigration.

The background discussion points out how immigration is changing the nature of the nation. In 1950 almost nine-tenths (89%) of Americans were white (and non-Hispanic); projections indicate that by 2050, whites will make up only 53% of the population of the U.S. In spite of the stereotypes about the whites being at the top of the social pyramid, Japanese and Chinese have higher average incomes than whites, and achieve higher grades and test scores than any other racial group.

A couple of errors in this section stand out. A reference to the "Great Migration" of 1629-1640, which supposedly "brought 21,000 English Pilgrims to the Massachusetts Bay Colony" (Pilgrims and Puritans are here being confused) as America's founding event, neglects the earlier 1607 settlement of Virginia. On the next page it refers to the Immigration Act of 1924 (which imposed national origin quotas proportional to the U.S. population composition in 1890) as having such drastic effects that in 1933 only 23,000 immigrants entered the United States. Actually, the decline in migration primarily reflected the high unemployment of the Great Depression (which implied that any new immigrants would not find work), and most quotas imposed by the act were non-binding during the Depression. Yet these errors are relatively minor.

Of the 1965 immigration legislation, which eliminated the national origin quotas of the earlier act, it is said (p. 130) that "The sponsors of the 1965 measure had no particular object in mind other than the laudatory and benevolent one of deleting explicitly racist provisions from the statutes." The national quotas were replaced with a system

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that gave top priority to reuniting immigrant families. This produces a system of chain migration in which after the first immigrant comes over, he brings his brothers and sisters. They in turn bring over their spouses, and since the spouses turn out to have brothers and sisters, the process continues. Today only about 10% of the immigrants are admitted because of their skills. Critics of current immigration policy often argue for giving higher priority to those immigrants with skills (Peter Brimlow, *Alien Nation*, Random House, 1995).

A Gallup survey (in English, so it missed those who could not speak English), found that although two thirds reported that members of their family were already settled here, only 23% reported coming for family considerations. Better jobs attracted 26%, with 19% coming for educational opportunity, and 13% for political freedom. Since most immigrants are admitted because they have family here, what is called "family reunification", it follows that many coming under those provisions of the law are primarily attracted by non--family considerations. The book mentions Brimlow's point that family reunification would in most cases be promoted by having the first immigrant return home, and a second migration in an already divided family usually further separated family members rather than bringing them closer together.

On measures to retard immigration, most were opposed to fortifying the Mexican frontier (62%), but half would deny illegal immigrants use of schools and hospitals. More than 60% favored forgery-proof national identity cards for citizens and legal immigrants. The latter is important because U.S. law currently makes it illegal to hire immigrants without proof of legal status, but such documents frequently are forged.

On the language issue, a survey showed eight out of ten Americans favored making English the official language of the United States (there is no official language now). The Census Bureau reports that a quarter of all immigrants speak little or no English.

Affirmative Action

Closely related to questions of immigration are questions of affirmative action. For instance, are the large number of recent immigrants from Mexico entitled to preference because they are Hispanics? Strange as it may seem to non-Americans, the U.S. actually does give preference to recent immigrants from Mexico,

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other Latin American countries, and Spain, over most U.S. citizens. Why? because the immigrants fall into non-White categories, such as Hispanic, Black or Asian, and as "minorities" these are given preferences.

Although affirmative action (the U.S. name for the policies of giving preference to certain historically disadvantaged groups, including blacks, Hispanics, and women) is heavily supported by the media and America's elite, it enjoys less support among ordinary white Americans. On the question of "Would you favor a national bill similar to California's Proposition 209 which bars discrimination against or granting preferential treatment to anyone in public employment, education and contracting", 61 % of Americans would favor such a bill, while 35% would oppose it.

Affirmative action is one area where the races have different opinions. In a 1995 poll two thirds of whites opposed hiring quotas for minorities and women, while two thirds of blacks favored such quotas. The contrast of the popular opinion with elite opinion is suggested by the fact that after California voters passed Proposition 209 (to eliminate racial and gender preferences) its implementation was blocked by a Federal Court (the decision has now been reversed) and the Clinton administration joined those suing to prevent implementation of the proposition. This is after it had been passed by the voters of the most populous state. For non-U.S. readers of this journal, Clinton's party, the Democrats, traditionally enjoys much stronger support among minorities than does the opposition. Appealing to their traditional supporters is the most obvious political reason for trying to overturn by court action a measure that had been passed by the voters of California, and which polls show is supported by a majority of Americans.

One of the many boxed discussions in the book deals with burnings of black churches (a topic that got much media attention). It quotes one journalist as saying "The story that has been told of the black church burnings is more a myth than a lie, a large fiction spun out of a smaller truth", citing a July 1996 *New Yorker* article. In a Gallup survey 42% of black respondents said that the arsons "reflect the fact that American society is basically racist," while only 24% of white respondents agreed. Two thirds of the whites said the burnings were isolated incidents that did not reflect on society generally, but only 48% of blacks agreed. (Few turned out to be due to arson by whites.)

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Homosexuality and "Gay Rights"

Of course one of the specific areas where conflict about affirmative action and civil rights has been strongest is the area of gay rights. The book notes the recent development in evidence that homosexuality has a genetic component (although it fails to recognize the even stronger evidence for intelligence being affected by genes). Not surprisingly there has been an increase in the percentage of Americans who believed homosexuality is something a person is born with (now 31% with 40% saying homosexuality is due to other factors, such as upbringing or environment). In 1982 only 17% had thought homosexuality is something a person is born with. Scientific evidence does have some impact. Those who thought homosexuality was a condition one was born with invariably showed stronger support for issues on the gay rights agenda.

Along with this shift there has been an increase in the percentage favoring equal job rights for homosexuals (84% in 1996 versus 59% in 1982). However, when the question was "Do you favor expanding the civil rights laws for blacks, other minorities, and women to include homosexuals," only 39% were in favor and 58% opposed. The percentages favoring laws extending homosexual rights varied with demographic group, with 49% of minorities favoring such extensions, versus 37% of whites. For women, 45% in favor versus 32% of men.

Recently the question of same sex marriage has moved from something most never even thought of as possible to a real political issue. Only 28% support legislation that would legally recognize same-sex marriages, and 67% oppose such legislation.

Crime and Punishment

Crime has increasingly moved nearer to the top of the list of issues that concern Americans. Almost half of women (49%) reported that there was an area within a mile of their home where they would be afraid to walk alone at night (this applied to 29% of the men). One in three Americans had been a victim of a personal or a property crime within the previous year.

Americans consequently appear to favor tougher penalties. Three quarters now favor the death penalty for murder (up from 42% in 1966), and sixty percent now favor the death penalty for juvenile murderers (up from 11% in 1959).

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Between Past and Future

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